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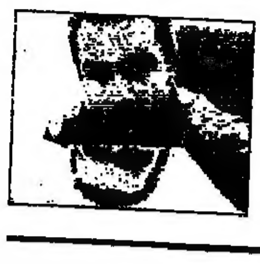

FT Weekend tomorrow
Damien Hirst scores again with art and commerce

Globalisation
Has the free market failed disastrously?
Robert Chote, Page 11

Norway's economy
No wonder the prime minister is depressed
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Separate section

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how to spend it colour magazine
is the game up for russia's new kleptocracy?

WORLD NEWS

North Korea poised to launch second missile, Japan says

Japanese defence forces were put on emergency alert yesterday as Tokyo warned warned that North Korea was poised to fire a second missile at the Japanese archipelago. Last Monday, a North Korean missile crossed Japan and landed in the Pacific. In retaliation, Tokyo suspended food aid and talks over normalising relations. **Page 12; Lack of military readiness, Page 7**

Kosovo fighting unabated
Fighting continued in Serbia's Kosovo province. Government forces shelled southern separatists for a second day. **Page 3**

Access still denied, says inspector
UN monitors in Iraq are still being denied access to sites previously approved by Baghdad, chief UN weapons inspector Richard Butler told the Security Council. The US and UK have introduced a draft resolution that would suspend sanctions reviews until Iraq reverses its freeze on co-operation with the inspectors.

French minister in coma
French interior minister Jean-Pierre Chevenement, 59, was in a coma after his heart stopped during routine surgery at a Paris hospital. **Page 2**

Nigerian party formed
Nigerian politicians have formed a second big political party to contest elections to end military rule. The All Peoples' Party groups 34 smaller associations.

Afghan massacre alleged
Afghanistan's Taleban militia killed thousands of Hazara civilians after capturing the northern town of Mazar-i-Sharif on August 8, human rights group Amnesty International said. **Page 5**

S Korean police storm factories
South Korean riot police stormed all six Mando Machinery factories to end a strike over planned lay-offs at the autoparts maker.

Terrorists expel ex-leader
Basque separatist group Eta said it expelled ex-leader José Luis Alvarez, currently jailed in France, because he favours giving up arms and calling a truce which could lead to talks with the Spanish government.

Chinese talks set to resume
Taiwan's top political envoy, Koo Chen-fu, accepted a Chinese invitation to visit the mainland next month and resume talks suspended since 1995.

Bangladesh clash over US project
Bangladeshi police broke up a Chittagong protest against the $438m construction of Bangladesh's first private container terminal by US company Stevedoring Services.

Satellite receivers seized
Iranian police have seized nearly 550 banned satellite television receivers, blamed by the country's Islamic authorities for promoting a western "cultural onslaught".

BUSINESS NEWS

Hitachi shares fall as group forecasts net loss of $1.8bn

Hitachi shares tumbled 7 per cent after Japan's biggest electronics company forecast its first net loss, of Y250bn ($1.8bn) in the year to next March. It blamed lower sales after the collapse in semiconductor and electronics prices. **Page 13; Lex, Page 12**

Royal Dutch/Shell and Texaco of the US plan to pool much of their European refining and marketing assets in a joint venture that will be dominated by the Anglo-Dutch group. **Page 13; Background and comment, Page 18; Elf talks down prospect of mega-merger, Page 16**

Enterprise Oil, British oil explorer, reported an 85 per cent collapse in first half pre-exceptional net profits to £12m ($19.8m). **Page 18 and comment**

The Quandt family, which owns about 49 per cent of BMW shares, dismissed speculation that it intended to alter its equity holding in the German carmaker. **Page 16**

Casino, French retailer, said it was to take a 50 per cent stake in Disco group, Uruguay's leading food retailer, in a cash deal which valued the target at FFr720m ($119m). **Page 16**

Michelin, French tyremaker, bought a 98 per cent stake in Industria Colombiana de Llantas, Icollantas, Colombia's largest tyre manufacturer, in a $73.4m deal.

Minorco, Luxembourg-based subsidiary of South Africa's Anglo American group, said it was not able to buy back some of its shares, but might make an offer for the 43.2 per cent of US agribusiness Terra that it did not own. **Page 16**

Cimpor, Portugal's biggest cement group, acquired Tunisian cement company Société des Ciments de Jbel Oust for Es38.2bn ($212.7m). **Page 16**

Futures trading firms reacted angrily to the collapse of the "common clearing" plan which would have seen the Chicago Board of Trade and the Chicago Mercantile Exchange pool their back office functions. **Page 13**

The US dollar stumped analysts when it fell in value in Europe and the US as equity markets fell and Treasury prices climbed higher on new concerns about the global economy. **Page 23**

Venezuelan Aluminium Consortium, the only qualified bidder in the privatisation of Venezuela's aluminium complex, withdrew, scuppering the government's third sale attempt. **Page 15**

Euro Prices
A comprehensive statistical guide to the new euro currency zone, covering foreign exchange, bond and equity markets.
Page 21

Russia crisis deepens as rouble falls further against the dollar

By Chrystia Freeland in Moscow

The rouble plunged yesterday to Rbs 13.46 against the dollar, less than half its rate three weeks ago, pushing Russia deeper into an economic crisis that has already brought down the government and threatens to unseat President Boris Yeltsin.

Domingo Cavallo, the architect of Argentina's financial stabilisation who has been asked to advise the Russian government, warned that unless the weakened authorities summoned the will to implement radical measures soon, the country risked sinking into hyperinflation.

"The situation is very serious. They have to act immediately. They do not have a lot of time," Mr Cavallo, the former Argentine economics minister, said in Moscow. "Otherwise, the depreciation of the currency will produce accelerated inflation and accelerated inflation may well produce hyperinflation."

But the government's ability to act forcefully depends on parliament, which is today scheduled to vote for a second time on the nomination of Victor Chernomyrdin as prime minister.

Mr Yeltsin yesterday renewed his efforts to secure Mr Chernomyrdin's confirmation, offering to surrender some of his political authority in exchange for parliamentary support for Mr Chernomyrdin. The Communists, who dominate the parliament, were unmoved. As he fights for his political life, Mr Chernomyrdin is also arbitrating a fierce debate within his insecure cabinet, where two rival camps are battling over Russia's economic future.

One group, led by Boris Fyodorov, the reformist deputy prime minister, is drawing on Mr Cavallo's advice and the Argentine use of a currency board system – which sets a fixed exchange rate by matching the amount of money in circulation with international reserves – to put together a tough, liberal stabilisation programme. If Mr Chernomyrdin backs the plan, he could announce its outline by today.

But another government faction, with sympathisers in parliament, is urging the opposite approach: a reversion to more state control in the economy.

This authoritarian scenario is further unsettling financial markets.

Although trading in the rouble on the Moscow Interbank Currency Exchange (Micex), the main currency exchange, reopened yesterday after a week-long hiatus, the official exchange rate policy remained uncertain.

The central bank set the official rate at Rbs 13.46 to the dollar, but in Micex trading the Russian currency slid to a bid/offer rate of 16.00/20.00 to the dollar.

Russian banks, Page 2
Futurology and risk, Page 10
Russian contagion, Page 13
Currencies, Page 23

Boeing to join inquiry into cause of Swissair crash

By Edward Alden in Toronto, Frances Williams in Geneva and Michael Skapinker in London

A team from Boeing, the US aircraft maker, was preparing last night to join US and Canadian investigators in Nova Scotia trying to find out what caused the crash of Swissair Flight 111 en route from New York to Geneva on Wednesday night.

All 229 passengers and crew aboard the MD-11 aircraft perished in the crash off the south coast of Nova Scotia.

Jonathan Mann, a pioneer in the battle against Aids, was among the passengers. He was the first director of the Aids programme set up by the World Health Organisation.

At least six United Nations officials were also on the aircraft, which was carrying 136 American nationals, 30 French, 28 Swiss, six British and 15 from 10 other nations, as well as 14 crew comprising 13 Swiss and one American.

Divers and ships were scouring the wreckage for bodies yesterday in water 70ft to 150ft deep. Canadian police said 36 bodies had been recovered by midday.

Swissair did not release a list of passenger names yesterday, saying it was attempting to contact relatives first. It was also organising flights to take relatives to Nova Scotia to assist in the identification of bodies.

The pilot of the MD-11 jet, which left New York's Kennedy airport on Wednesday evening, contacted air traffic control in Moncton, New Brunswick, at 10.14pm local time warning of smoke in the cockpit, said an official of Canada's Air Transportation Safety Board. The pilot requested diversion to Boston but was told to land at the closer Halifax airport.

The aircraft began descending from 33,000ft but disappeared from radar at between 10,000ft and 8,000ft.

Canadian police said they had no indications of criminal activity associated with the crash, but were still investigating.

Swissair's safety record is among the best of any large airline in the world. It has not had a fatal crash involving one of its aircraft since 1979.

UK prime minister Tony Blair and US president Bill Clinton in Northern Ireland yesterday. Mr Clinton said recent achievements in the peace process after three decades of bloodshed had been 'a magic thing to see unfold'. Page 12

Schröder ahead on points in debate

By Peter Norman in Bonn

They were only four metres apart but they seemed to be talking about different worlds.

Helmut Kohl, Germany's chancellor, every inch the senior statesman, yesterday told voters they could look back on "16 very good years" and warned them that "all experiments bring danger" as they headed towards this month's general election.

For Gerhard Schröder, the Social Democratic challenger, it was a day to be confident, witty and angry. Evoking his own poverty stricken upbringing as a war widow's son, he accused Mr Kohl of splitting Germany between rich and poor and creating a society where the young were neglected and fell prey to drugs and the far right.

This clash yesterday in the Bundestag, Germany's lower house of parliament, was keenly awaited as the only "high noon" confrontation between chancellor and challenger ahead of the September 27 poll. Mr Kohl has refused a television debate with Mr Schröder.

In the event, the format of the budget debate meant the two men talked past each other, although television commentators afterwards awarded victory on points to Mr Schröder.

It was easy to see why. Mr Kohl, with the disadvantage of speaking first, relied heavily on parliamentary lieutenants to attack the SPD challenger. He spent much of his 80 minute speech discoursing on foreign and European policy and harking back to past achievements.

Mr Schröder, to the delight of SPD MPs told the chancellor his speech "was about the past", that he "had problems with the present" and that he was "unqualified to deal with the future". The challenger then spelt out his policies on energy, education, low paid jobs and taxes.

Germany, said Mr Kohl, was now a highly respected member of the international community, on friendly terms with nations throughout the world.

He invoked past leaders such as Mikhail Gorbachev, Ronald Reagan, François Mitterrand and George Bush as partners in past triumphs. Boris Yeltsin, the Russian president, was given special praise for withdrawing his troops from German soil.

Mr Schröder, who dismissed Mr Yeltsin as the chancellor's "sauna friend", said Germany was a country in which the average family faced an ever greater burden of taxes and social security levies. The idea of reform had been debauched, people reaching for their wallets whenever they heard the word.

Singapore deal could ease Malaysia losses

By Richard Adams and Clay Harris in London and William Lewis in New York

Singapore's financial authorities yesterday appeared to have secured a deal enabling international banks to avoid billion-dollar losses resulting from Malaysia's imposition of strict currency controls this week.

The agreement would allow an orderly settlement of up to $5bn in outstanding financial contracts. The provisional deal was announced after an emergency meeting between the Monetary Authority of Singapore and representatives of 32 international banks.

Singapore's decision to convene a bankers' meeting about another country's currency was an unusual action. Most trading in the ringgit takes place in Singapore, meaning any losses would most affect banks operating there.

Under the deal all outstanding contracts in the ringgit would be settled in US dollars at a spot rate of M$4. The official onshore rate in Malaysia is M$3.80. Malaysia's decision to end offshore trading in the ringgit from September 9 voids all forward contracts, options and interest-rate swaps in ringgit that settle after that date.

The agreement has not been ratified. Further meetings are expected today in Singapore, London and New York, with the participation of central banks including the Bank of England and US Federal Reserve.

A decision is unlikely today because banks have not yet canvassed corporate customers, some of which have contracts at other exchange rates. Banks fear a legacy of legal actions if they try to impose the terms on customers. Some fear a deal might encourage other countries to follow Malaysia's lead.

The institutions involved include leading US, European and Japanese banks, as well as money brokers.

The decision to set a notional dollar rate, and the timing, means the Singapore authorities are unlikely to need to make an informal market in the ringgit.

After the announcement, Malaysia's central bank said it would introduce mechanisms for outstanding ringgit transactions after September 9.

Simon Mahadevan Flint, an analyst for IDEA economic consultancy in Singapore, said the legal status of the contracts would be mutual termination, rather than default.

Fund deals halted, Page 13
Currencies, Page 23

Anwar expelled

Anwar Ibrahim, sacked deputy prime minister of Malaysia, was expelled from the UMNO party, *writes Sheila McNulty in Kuala Lumpur*. But he denied allegations including sexual misbehaviour and treason. "This stems from jealousy," said Mr Anwar. **Report, Page 6**

WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Av	7658.06	(-114.31)
NASDAQ Composite	1572.84	(-20.01)
Europe and Far East		
CAC40	3646.46	(-83.21)
DAX	4812.18	(-158.32)
FTSE 100	5118.7	(-147.1)
Nikkei	14,261.24	(-115.88)
US Lunchtime RATES		
Federal Funds	5½%	
3-mth Treas Bills: Yld	4.81%	
Long Bond	[illegible]	
Yield	5.32%	
OTHER RATES		
UK: 3-mo Interbank	7⅝%	(same)
UK: 10 yr Gilt	113.9297	(113.453)
France: 10 yr OAT	108.81	(108.84)
Germany: 10 yr Bond	107.68	(107.382)
Japan: 10 yr JGB	112.54	(112.62)
NORTH SEA OIL (Argus)		
Brent Dated	$12.53	(12.985)

GOLD		
New York: Comex		
Sep	$285.2	(280.3)
London:		
	$284.35	(280.85)
EXCHANGE RATES		
Dollar		
New York: Lunchtime		
£	1.676	
DM	1.72275	
FFr	5.795	
SFr	1.4197	
Y	134.905	
London:		
£	1.6813	(1.6687)
DM	1.7244	(1.7506)
FFr	5.7813	(5.8691)
SFr	1.4167	(1.4423)
Y	134.52	(137.835)
Tokyo Close		Y 135.89
Sterling		
DM	2.8893	(2.9232)

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WORLD NEWS

EUROPE

CAVALLO VISIT ARCHITECT OF ARGENTINA'S SUCCESSFUL CURRENCY BOARD SUMMONED TO MOSCOW FOR ADVICE ON FINANCIAL CRISIS

Swift Russian stabilisation programme urged

By Chrystia Freeland in Moscow

Russia must swiftly introduce a radical financial stabilisation programme if it is to prevent the economy from plunging into hyperinflation, Domingo Cavallo, Argentina's former economy minister, said yesterday after two days of consultations with the Russian government.

"The currency has already devalued a lot," Mr Cavallo said in an interview with the FT. "This process will continue unless there is appropriate action taken soon by the government... I hope they will do something within the next few weeks."

Mr Cavallo, architect of Argentina's successful currency board system, was summoned to Moscow this week to offer the government urgent advice on how to cope with its mounting financial crisis.

A currency board takes control of monetary policy out of the hands of government and automatically sets interest rates according to the level of foreign currency reserves it holds, at a fixed exchange rate.

On arrival, Mr Cavallo immediately found himself at the centre of a crucial debate over the nation's future. On one side are advocates of radical stabilisation measures, led by Boris Fyodorov, deputy prime minister, and advised by Mr Cavallo. They are opposed by a more conservative lobby, which is pushing for a return to command-economy measures such as currency controls and soft credits.

Mr Fyodorov and his team are currently at work on a reformist emergency stabilisation programme, drawing heavily on Mr Cavallo's experience in Argentina. The question now is whether that programme will win the wider backing of the politically shaky Russian government.

If Mr Fyodorov's approach is triumphant, Russian newspapers speculated it could be unveiled by Victor Chernomyrdin, the acting prime minister, in parliament today.

Mr Cavallo, who may be on his way to guru status in the former Soviet bloc – he is advising Ukrainian officials in Kiev today – became an instant celebrity in Moscow, with radio stations playing Argentinian tangos to welcome him to the Russian capital and newspapers featuring extensive accounts of Argentina's victory over hyperinflation.

Although some western economists have been sceptical about the applicability of a currency board system to Russia, Mr Cavallo said Mr Fyodorov's team had the technical ability to implement a radical stabilisation plan.

"If they decide to implement a monetary refrom like the one we implemented in Argentina, they have the technical capacity to do it," he said.

The big question, Mr Cavallo said, was whether Russia's leaders, who have been weakened by a political crisis, would summon the political will to pursue difficult reforms.

Perhaps surprisingly, some of the influential Russian financiers who have often been viewed as enemies of reform appear to be actively lobbying for Mr Cavallo's advice to prevail. Mr Cavallo said that in Moscow he met leading businessmen, including Boris Berezovsky.

Cavallo: currency board advice

This week Mr Berezovsky publicly championed Mr Cavallo and called on the government to unite behind a stabilisation plan.

If Russia does take a currency board style approach, Mr Cavallo said that it would be crucial to reform the tax system simultaneously.

A virtue of the currency board approach, he said, was that it drew a line between old and new tax obligations, by, in effect, separating old and new money.

The government should use this transition as a starting point for a new tax regime.

If Russia opts for a tough stabilisation plan, Mr Cavallo said that assistance from the west would be particularly important.

"The only way to produce stabilisation is with some support from the International Monetary Fund and the G-7," he said.

HOUSEHOLD DEPOSITS CENTRAL BANK ORDERS TRANSFER OF ACCOUNTS TO SAVINGS BANK

Russian banks claim 'expropriation'

By John Thornhill in Moscow

Russian banks yesterday reacted with outrage to the central bank's orders to allow household deposits from six commercial banks to be transferred to Sberbank, the state-backed savings bank, saying it could result in a deluge of writs.

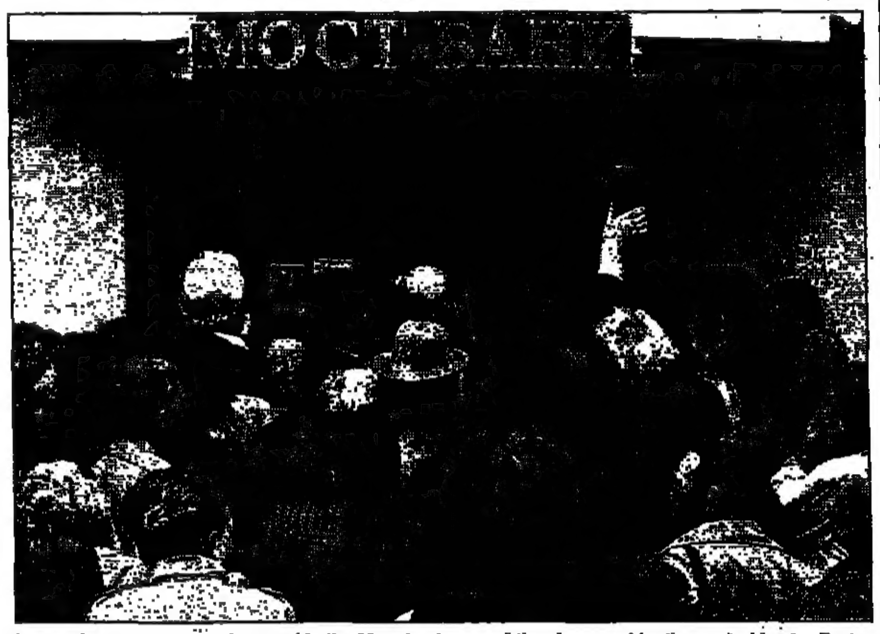
Victor Bukato, chairman of Mosbiznesbank, one of the six banks to be affected, said: "The order transferring these sums smacks of expropriation."

The central bank's move is designed to guarantee household deposits and prevent panicked customers from withdrawing all their money from the banking system. The central bank said every depositor could choose whether to transfer their deposits to Sberbank although they would not be able to withdraw their money immediately, meaning their value would be eroded by the rapid fall in the rouble.

Analysts said the move was a brave gesture but were unsure whether it was a prelude to withdrawing licences from the troubled banks, many of which are now involved in convoluted merger talks. The six banks, Menatep, Most, SBS-Agro, Inkombank, Mosbiznesbank, and Promstroibank, include some of Russia's biggest financial institutions, linked to powerful "oligarchs".

On Wednesday, Alexander Smolensky, chairman of SBS-Agro, which the central bank wants to nationalise, blamed the government for the banking sector's liquidity crisis after it forcibly restructured the government debt (GKO) market. "This so-called restructuring of the GKO market is just plain robbery: $20bn has been washed out of Russia's financial system. Like Bolsheviks, they just took away this money," he said.

But the central bank has been trying to keep the troubled banking sector afloat by lowering the banks' minimum reserve requirements. This week, it cut the reserve requirement from 10 per cent to 7.5 per cent.



Muscovites queue yesterday outside the Most bank, one of the six named by the central bank Reuters

Roland Nash, economist at MFK Renaissance, an investment bank, said this injection of liquidity was mainly responsible for the sharp fall in the rouble yesterday to 18.46 to the US dollar. He estimated that every one percentage point fall in the banks' minimum reserve requirements injected Rbs2.5bn ($185m) into the banking system.

"The reasoning of the central bank is that it injects liquidity into the banking system so that the banks are able to provide depositors with their cash," he said. "But the banks just take these new roubles and change them into dollars."

French economic recovery continues

By David Owen in Paris

The French economic recovery continued to gather pace in the second quarter, keeping the country on course for growth of 3 per cent this year, in spite of the crises gripping Russia and much of Asia.

Figures published yesterday by Insee, the national statistics institute, put growth of French gross domestic product at 0.7 per cent in the April-June period after 0.6 per cent in the first three months.

The figures confirmed the robustness of internal demand, with household consumption rising 1 per cent after a 0.7 per cent first-quarter increase. Internal demand has taken over as the main engine of growth, as previously buoyant exports come under pressure as a consequence of the economic problems in other parts of the world.

Dominique Strauss-Kahn, finance and industry minister, said 1998 growth would now reach at least 3 per cent, with a similar pattern of growth expected in coming months.

"The internal dynamic is contributing to compensate for the effects of the deterioration of the international environment," he said. The growth in household demand was "the base of French growth and is contributing to the acceleration of corporate investment observed since the start of the year".

Mr Strauss-Kahn said that household consumption would continue to progress, supported notably by car purchases. Indications of building activity showed that households were starting to take advantage of low interest rates to increase their investments in housing. On the other hand, the financial difficulties experienced by numerous emerging countries would continue to affect the contribution to growth of foreign trade.

Analysts took a similar view, with ABN-Amro indicating it expected GDP growth to "comfortably meet our forecast of 3 per cent this year". "Household consumption is gathering momentum," it said. Though unemployment is still high, employment had grown significantly over the past year.

Russia's Kuzbass region flexes its muscles again

Moscow has been warned that miners will block rail lines if their demands are not met. **Charles Clover** and **John Thornhill** report

The governor of the Siberian region which produces half of Russia's coal is trying to wrest more powers from Moscow to pay local miners, who are owed an average of five months' wages.

Aman Tuleev, governor of the Kuzbass region, warned that if his economic and political demands are not met, coalminers will blockade railway lines through the region's territory, which connects Russia's east and west.

"The central government has no choice. If it does not agree, the miners will be sitting on the railway tracks again," he said.

Mr Tuleev's stance reflects the increasingly aggressive demands of many of Russia's elected governors, who are desperate to assert their influence as the federal government's authority crumbles.

Some are toying with a range of measures to protect their local economies if Russia's current financial crisis spirals out of control. To the Kremlin's alarm, the talk is turning to local price controls, federal tax strikes, and even the issue of quasi-currencies.

The Vremya newspaper reported that the Samara region, south-east of Moscow, was considering issuing bonds, backed by municipal property, which could be used for payments in the event of economic crisis.

"After this there remains only one more action needed to complete their exit from the structure of Russia – to declare formal independence," the newspaper commented.

"It is a good time for the governors to play these games," said Nikolai Petrov, an expert on Russia's regions at the Carnegie Moscow Centre. "The central government is practically absent."

Mr Tuleev, a rough-hewn railway engineer who stood as a Communist candidate in the 1996 presidential elections, claimed that if his regional government were given control of local coal mining enterprises it could fix the problem of wage arrears.

The central government still owns controlling stakes in most of the coalmines, but does not interfere with the management.

"Why do we want the shares? So that we (the regional administration) can have a place on the board of directors, participate in decision making, and block the decisions that are not correct," said Mr Tuleev.

Elected governors across Russia, desperate to assert influence as federal authority crumbles, are making increasingly aggressive demands

He would also like to modify taxation rules so that a greater percentage of local tax revenues would stay in Kuzbass and dreams of unifying his region with the neighbouring regions of Tomsk and Altai. "Russia has too many administrative regions, 89 in all. The country would be easier to govern if we lowered this number," he said.

Last May, Kuzbass miners started Russia's so-called "rail war" by blacking the Trans-Siberian railroad, which runs through the territory.

They lifted the blockade in late May then imposed it again in July for two weeks and have threatened once again to blockade the tracks.

Labour union leaders in Kuzbass charge that mine directors siphon off revenues by selling coal at artificially low prices to trading companies which they own. But Anatoly Chekhis, head of the Federation of Independent Trade Unions in Kuzbass said the problem of wage arrears also had a broader dimension.

"This problem is not just with our manager. It is a problem all over Russia which means that it is a problem with the system. It is the whole system that we must change," he said.

Mr Tuleev enjoys wide popularity throughout Kuzbass, a region which has always been on the forefront of political change in Russia. In June 1989, strikes in Kuzbass were one of the main factors that brought Boris Yeltsin to power in 1991.

But now, most of the population of Kuzbass is tired of Mr Yeltsin and the central government. The region is one of the most active participants in the "red belt" of regions in Russia where communists enjoy strong popularity.

"Kuzbass has always been a pioneer in political movements," said Victor Zheltov, head of the political science department at Kemerovo State University.

"We were the first to go on strike in 1989, and we were the first to block the railroads in May."

"Kuzbass has always been the first to sponsor ideas which the regime does not like. Who knows where we will go this time?" he said.

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BRUSSELS WARNING 'PUT YOUR OWN HOUSE IN ORDER,' SAYS COMMISSION PRESIDENT

EU assistance will depend on reform

By Neil Buckley in Brussels

The European Union warned Russia yesterday that it could expect no new international financial support unless it installed a functioning government committed to economic reforms.

In its first substantial response to the Russian crisis, the European Commission – the EU's executive arm – echoed the message of President Bill Clinton in Moscow this week that new assistance from international financial institutions was conditional on continued reform.

Jacques Santer, the Commission president, warned it was "up to the Russians to put their own house in order".

Hans van den Broek, commissioner for relations with Russia, said the fact that such a potentially rich country was in disarray suggested something was "politically, fundamentally wrong".

"Anything we would discuss on giving assistance to Russia – which obviously with others we are prepared to do – can yield no result or success unless the political problems are first being addressed, or until a new government with parliamentary support is in place," he warned.

But the EU's executive stopped short of endorsing Victor Chernomyrdin, the acting prime minister appointed by President Boris Yeltsin.

The EU has decided against holding a special finance ministers' meeting on the crisis – in spite of support for the idea from Mr Santer and Yves-Thibault de Silguy, monetary affairs commissioner, and Austria, holder of the EU presidency. But it plans to send Mr de Silguy and Rudolf Edlinger, the Austrian finance minister, to Moscow to discuss EU assistance once the political situation has stabilised.

Brussels pledged to "retarget" existing support to Russia through the Tacis – Technical Assistance to the Commonwealth of Independent States – programme, which has provided $1.6bn over seven years. It would aim at strengthening areas such as budget management, expenditure controls and tax collection, as well as banking supervision and restructuring commercial banking.

Tacis aid would also be channelled more into projects aimed at restructuring businesses and encouraging investment.

The Commission continued to play down the potential impact of the crisis on the European economy, saying Russia accounted for only 4 per cent of EU trade, and 8 per cent of debts outstanding to EU banks.

But Mr Santer conceded that there was a "medium-term risk" that, without a "convincing response" from the Russian authorities, international business confidence could deteriorate, slowing growth.

The Commission also insisted the crisis would have limited impact on other former Soviet bloc countries and, importantly, would not disrupt the timetable for planned enlargement of the Union to the east early in the next century.

Most eastern European countries had reorientated their trade flows away from Russia, primarily towards the EU, and were not competing directly with Russia on world markets.

"The Russian crisis clearly shows how import it is that progress towards economic reform has taken [hold] as it has in the candidate countries," said Mr van den Broek. "That is the best way to avoid contagion."

NEWS DIGEST

FRENCH MINISTER IN COMA

Chevènement 'has heart attack'

Jean-Pierre Chevènement, French interior minister, was in a coma yesterday after suffering cardiac arrest during routine surgery.

The office of Lionel Jospin, the prime minister, said that the 59-year-old minister's hospital stay would be prolonged as a result, and he would be unable to resume his functions at the start of next week.

Mr Jospin has proposed that overseas minister Jean-Jacques Queyranne take over as interim interior minister. The leader of the leftwing Mouvement des Citoyens, Mr Chevènement gained international prominence when he quit as defence minister at the start of the 1991 Gulf war to protest against France's participation in the US-led coalition. He has been seen by some as a possible future prime minister. **David Owen, Paris**

ITALY CHALLENGE

Change course, Prodi told

The leader of Italy's far left party challenged Romano Prodi's government yesterday to change course or risk losing its majority in the lower house of parliament.

Fausto Bertinotti, general secretary of the Reconstructed Communists party, said he was raising the political stakes to ensure the centre-left government took his party's proposals seriously, mainly on employment and health.

But supporters of Armando Cossutta, the party chairman, seemed increasingly at odds with Mr Bertinotti's position and said a divergence of opinion was emerging within the hard left on its relations with the Prodi administration. The government depends on the votes of the 34 Marxist deputies in the Chamber of Deputies for its majority.

"We want to raise the stakes as we have asked the government to make commitments which until now they have not adopted," Mr Bertinotti said. "For us, the line is clear. Either there is a change of policy or there will be breakdown in the majority," he added. **Reuters, Rome**

MALTESE ELECTION

EU decision for voters

Both main parties are forecasting victory in Malta's general election tomorrow, with voters being offered another chance to decide on the island's future relations with the European Union.

The Labour government and its prime minister, Alfred Sant, lost a one-seat majority earlier this year when Dom Mintoff, 83, the former party leader, defected to the opposition.

The opposition Nationalist party, led by Eddie Fenech Adami, has based its campaign on seeking EU membership, though Malta is unlikely to be able to join until 2005 at the earliest.

But it has also focused on issues such as lowering water and electricity costs, as well increasing demand in the domestic economy.

Mr Sant opposes EU membership but is holding talks with Brussels on creating a free trade zone. **Godfrey Grima, Valletta**

PRE-ELECTION POLL

Germans see harder lives

More than half of Germans expect to have to work harder and for lower wage rises because of intensifying global economic pressures, according to an opinion poll published today. The survey highlights Germans' sensitivities at a time when unemployment stands at about 4m.

Germany has some of the world's highest labour costs and most generous holidays. The issue of how to improve competitiveness to tackle the high joblessness has become a key issue in the political debate ahead of the September 27 national elections.

Germans are less concerned about the threat of competition from Asian countries in the wake of the region's economic and financial crisis, the survey found. But they are pessimistic about their future standard of living: almost two-thirds expect their incomes to stagnate or decrease, the survey, published by the German chemicals employers' federation, shows.

The survey found 57 per cent of people thought Germans would have to work longer hours and reduce wage demands if the country was to stay ahead in international competition. About 3,103 people were polled in east and west Germany by the Emnid Institute, one of Germany's leading polling organisations. About 64 per cent of people thought their standard of living would decline or remain at current levels. **Graham Bowley, Frankfurt**

MEMBERSHIP PUSH

Call to speed EU talks

Jan Krzysztof Bielecki, Poland's representative at the European bank for Reconstruction and Development (EBRD) and a former prime minister, has called on the country's authorities to speed preparations for European Union membership.

Mr Bielecki said Russia's financial crisis made it imperative Poland should join the EU as soon as possible. He has appealed to the government, parliament and the president to issue a joint declaration that Poland will be ready to join the EU in 2000.

This is two years earlier than the date officially adopted by Poland as the time the country will be ready for membership. The year 2002 has been pencilled in by the European Commission as the moment when Poland should be ready to join. **Christopher Bobinski, Warsaw**

RADAR BASE CLOSING

War 'over for Latvia'

A Russian radar base, the final vestige in the Baltic states of the cold war, has been decommissioned, paving the way for the withdrawal of the last Russian troops from the region.

The radar has been turned off at the Skrunda base in Western Latvia, part of a sprawling Soviet-era early warning missile system. According to a bilateral agreement between Latvia and Russia, the radar will be dismantled and the 400 remaining Russian soldiers will depart over the next 18 months.

Valdis Birkavs, Latvia's foreign minister, said the second world war was finally over for Latvia.

Moscow had withdrawn most of its troops from the Baltic state by 1994, but cajoled a four-year extension to operate Skrunda, saying at the time the base was crucial to its early warning missile system.

Jurgen Hubschen, representative of the Organisation for Security and Co-operation in Europe, which is supervising the withdrawal, said the Russiamn-Latvian co-operation was "perfect, following not only the wording, but also the spirit of the agreement." **Matej Vipotnik**

صورة من الاصل

Oslo's slalom government heads for a hard landing

Norway's prime minister has taken a week's sick leave to try to overcome work related blues but economists say they will take longer to beat than that, reports **Tim Burt**

No wonder Kjell Magne Bondevik is depressed. The prime minister of Norway, who earlier this week announced he was suffering from "depressive reaction to overwork", has watched with growing alarm as the economy has lurched towards a downturn.

When Mr Bondevik's minority centre-right coalition came to power last September, most analysts agreed it would take a government of startling incompetence to upset the oil-fuelled economy.

Now, however, the picture is looking bleaker.

Crude prices have tumbled, undermining the country's oil surplus. The krone has declined sharply, in spite of seven interest rate rises by the central bank. Government-imposed delays on new oil projects have hurt investment in the offshore engineering industry. And hopes of wage moderation have evaporated with a spate of over-generous settlements.

Even before the market volatility prompted by Russia's turmoil, the Oslo Total-index lost more than 20 per cent of its value in August. The krone reached a six-year low against the D-Mark. Interest rates, which began the year below 4 per cent, have more than doubled.

If that was not enough, the government coalition – commanding just 42 of the 165 seats in parliament – has failed to tighten fiscal policy or significantly reduce government spending.

If the government is to salvage any economic credibility, next month's budget will have to contain harsh measures to avoid overheating

Mr Bondevik, whose administration has been dubbed the "slalom government", has now taken a week's sick leave to try to overcome his work-related blues. But Norwegian economists say it will take a great deal longer than that, and warn that the country might have to suffer a hard landing first.

Yesterday, the country's statistical bureau confirmed that a slowdown was likely, with new figures forecasting gross domestic product growth falling from 3.5 per cent this year to just 0.5 per cent in 1999. It said the outlook for 1999 represented the lowest growth for the mainland economy in eight years.

To be fair, the problems are not solely of the government's making.

The impact of the falling oil price should not be underestimated. Oil revenues account for more than 15 per cent of GDP, and were expected to contribute to a current account surplus of NKr92bn ($11.6bn) this year. That estimate has now been cut to NKr27bn.

Meanwhile, the over-exposure of the Oslo bourse to oil and shipping stocks has contributed to sharp falls. The market has under-performed in line with oil prices, while the fallout from Asia has also hurt large companies such as Kvaerner, which yesterday reported first-half profits down from NKr840m to NKr266m.

Last autumn, Mr Bondevik also inherited a budget from his Labour party predecessors containing a fiscal policy too loose to cool the economy.

"Norwegian voters bear a certain responsibility for this mess," according to Marius Loemo, chief analyst at Christiania Markets in Oslo. "They voted for parties who wanted to increase spending without tightening fiscal policy any further."

For the past year, the coalition has been squeezed by the conflicting demands of rival parliamentary factions, unable to agree on the necessary medicine to cure the economy.

On the left, the Labour party has been unwilling to sanction cuts in the welfare system. On the right, the Conservative and Progress parties have resisted increases in taxation.

To make matters worse, Norway's so-called "solidarity alternative" has broken down. In theory, economic policy is founded on three pillars, where the central bank uses monetary policy only to stabilise the krone, the government relies on fiscal policy to control domestic demand and wage moderation is supposed to curb inflationary pressures.

Fiscal policy, however, has not been tightened sufficiently and wage growth has been projected at 6 per cent this year: three percentage points above the average among Norway's main trading partners.

For some time, the central bank has criticised the drift in policy and urged the government to give it greater freedom in monetary policy, something it has so far resisted.

"The crux of the matter is that Norway does not possess a truly independent central bank which can tackle the overheating economy and wage inflation," according to analysts at Merrill Lynch. "Neither is there any political will to tackle this through fiscal restraint."

But in the absence of any substantial economic initiative from the coalition, the bank has set the economy on course for a hard landing by increasing interest rates and spending NKr5.5bn to defend the currency since mid-July.

The krone has hardly responded to the treatment. Yet the real pain is being suffered by Norwegian commercial and private borrowers, who have seen business lending rates and mortgage costs rise inexorably.

It is a painful scenario for Mr Bondevik, who has temporarily handed over his duties to Anne Enger Lahnstein, leader of the 11-seat Centre party.

Her instinct is to maintain high state spending, especially on the elderly and families with children. And she is reluctant to penalise employers and employees by raising corporate and income taxation.

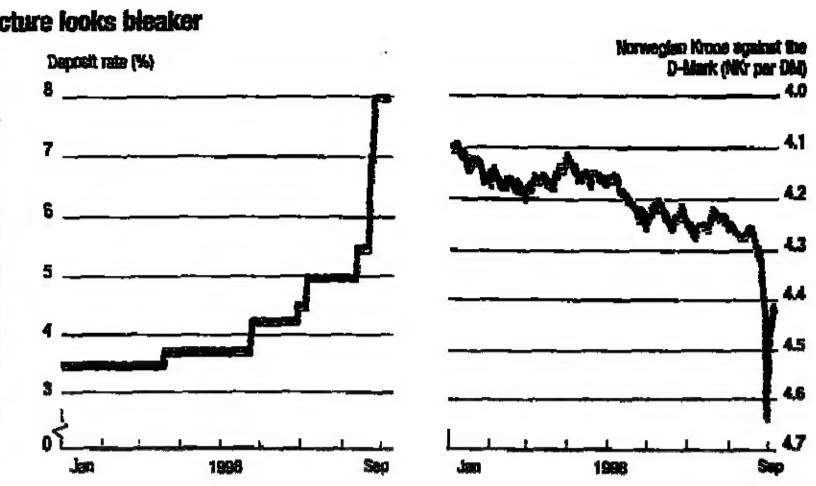
If Mr Bondevik's government is to salvage any economic credibility, next month's annual budget statement will have to contain some harsh measures to avoid further overheating. But his absence could further hamper attempts to reach a cross-party deal on the necessary budgetary medicine.

"There is a slight chance that there could be a greater [political] will to co-operate," says Mr Loemo at Christiania Markets. "But Mr Bondevik has an illness now, and the differences between the parties are still there."

Additional reporting by Valeria Sköld

Norway: now the economic picture looks bleaker

Kjell Magne Bondevik, prime minister



Source: Datastream/ICV

Kosovo fighting overshadows progress in talks

By Guy Dinmore in Belgrade

Heavy fighting yesterday in Serbia's province of Kosovo overshadowed progress by US mediators in securing an agreement between Belgrade and ethnic Albanian leaders on a framework for future negotiations.

Diplomatic observers reported that government forces shelled separatist militants for a second day in villages between the Albanian border and Prizren, the main town in the south of Kosovo. Local journalists said 35 Kosovo Liberation Army (KLA) rebels and five Serbian policemen were killed on Wednesday.

Police also closed off the main east-west highway between Pec and the provincial capital of Pristina, while a large government offensive continued in central Kosovo. Thousands of ethnic Albanian refugees are trapped out in the open and aid workers said infants were dying of exposure with the onset of wet, cold weather.

After months shuttling between Belgrade and Pristina, Chris Hill, the US mediator, this week persuaded both sides to put off talks on Kosovo's final status for three to five years. Negotiations over coming months are to focus on reaching an "interim agreement", to include a ceasefire, confidence-building measures, the return of refugees and the extent of self-government for the province's 2m people.

Slobodan Milosevic, president of the rump federal Yugoslavia, said on Tuesday that talks would begin on "an appropriate degree of autonomy" for Kosovo. Ibrahim Rugova, the Kosovo Albanian leader whose calls for independence find no support within the international community, agreed to the US-proposed timetable the next day.

One senior diplomat described the development as a "procedural breakthrough". US troubleshooter Richard Holbrooke used the same phrase when Mr Milosevic and Mr Rugova met for the first and only time on May 15. The Kosovo Albanian side broke off talks after the government launched an offensive against KLA bases that has so far uprooted over 250,000 people and destroyed dozens of villages.

Recalling many false dawns that punctuated the negotiating process in the 1992-95 Bosnian civil war, diplomats said it remained to be seen whether Mr Milosevic was serious about his commitment to talks.

Another potential stumbling block is the weakness of Mr Rugova's own position within the ethnic Albanian majority. The KLA has denounced Mr Rugova and named its own political representative, Adem Demaci, who has spent 28 years in Serbian prisons. Mr Demaci, a fierce rival of Mr Rugova, has not commented on the US initiative.

Western governments are unlikely to soften economic sanctions on Belgrade until real progress is seen. Diplomats say European Union foreign ministers may agree this weekend to a ban later this month on flights of the Yugoslav airline JAT to EU capitals. Belgrade is likely to respond in kind.

Slovakia steps up Danube clash

By Kevin Done in London and Koster Eddy in Budapest

Slovakia yesterday intensified its dispute with neighbouring Hungary over a hydropower scheme on the Danube which has been a running sore in relations between the two countries since the early 1990s.

The Slovak government said it had decided to return the dispute to the International Court of Justice in The Hague after the breakdown of negotiations on implementation of an earlier judgment issued by the court a year ago.

Bratislava attacked the "hostile approach" of the new centre-right Hungarian government led by prime minister Viktor Orban, which swept to power in the Hungarian general election last May.

In contrast to the previous Socialist-led government of Gyula Horn, the Orban administration appears to have ruled out the option of building a dam on the Hungarian section of the Danube, as originally planned to complement the Gabcikovo dam, already in operation on Slovak territory.

Hungary abandoned its share of the works in 1989 amid widespread environmental protests, which played a key role in toppling the communist regime.

The nationalist Slovak government led by prime minister Vladimir Meciar has decided to raise the issue of the dam only weeks before it faces a general election later this month. It said yesterday that Hungary had refused to sign an agreed Draft Framework Agreement, which the Horn government had initialled in February.

It is seeking a judgment that Hungary is responsible for failure of negotiations to date and wants a rigid timetable for further talks. It warns that if these fail, it will return to the court to seek compensation for Hungary's alleged breaches of the original 1977 treaty.

Hungary yesterday acknowledged Slovakia was within its rights to turn again to the court, but was still "willing to engage in constructive talks".

WORLD TRADE

Mergers boost to direct investment

By Frances Williams in Geneva

World foreign direct investment jumped last year by more than a quarter despite the east Asian financial crisis, fuelled by the boom in cross-border mergers and takeovers, according to the latest figures from the United Nations Conference on Trade and Development (Unctad).

FDI outflows reached \$424bn in 1997 from \$333bn in 1996, while inflows rose to \$400bn from \$338bn, the difference between the two reflecting different statistical coverage and methodologies.

About a third of all flows went to developing countries last year. Unctad, which will publish more detailed figures in November, says there are "prospects for a further increase" in total FDI in 1998.

The wave of cross-border mergers and acquisitions in western industrialised countries was the main driving force behind the surge in FDI in 1997. Cross-border M&As involving majority holdings were valued at \$236bn last year, or nearly 60 per cent of total FDI inflows.

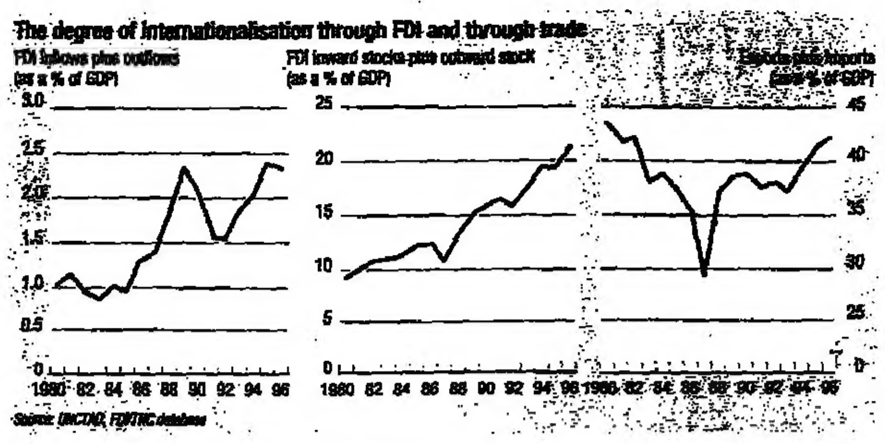
Liberalisation of investment regimes worldwide has led to a rising trend in cross-border company deals which now account for a quarter of all M&As, Unctad notes.

FDI doubled in the five years to 1997, after doubling in the previous five-year period, a rate of growth far surpassing the increase in world output or trade.

While the share of trade in GDP has remained broadly constant since 1980, that of FDI flows has risen from 1 per cent in 1980 to 2.3 per cent in 1996 and that of FDI stock from 10 per cent to 21 per cent. "This demonstrates that [global economic] integration is being accelerated more through investment than trade," Unctad says.

Some 7 per cent of global GDP is generated by production of foreign affiliates of transnational corporations and if parent firms were included, the proportion would be much higher. The total FDI stock at the end of 1997 was about \$3,500bn.

All regions saw more FDI flows last year, Unctad says. Developed countries invested \$359bn abroad, a rise of 27 per cent from 1996, and attracted \$233bn in inward investment, 19 per cent more than in 1996. Inflows to developing countries rose 15 per cent to \$149bn.



China's financial sector counts on a slow start from abroad

Beijing's recent market liberalisation has not unduly upset the domestic banking industry. **James Harding** finds out why

Market liberalisation tends to elicit, at the very least, a bleat of discomfort from those companies whose business is being thrown open to foreign competition.

But in China's banking sector it has prompted barely a murmur.

As China moved into a new phase of banking liberalisation last month, promising to allow more foreign banks the chance to do local currency business more widely in China, domestic banks have been unruffled – as clear a signal as any that Beijing's liberalisation programme is not throwing open the doors to the home market to foreign banks.

At China's central bank office in Shenzhen, the border town neighbouring Hong Kong where a handful of foreign banks will shortly be allowed to offer Chinese currency services, an official explains why domestic banks have been so far been unmoved: "In the past year, the approval of foreign banks to do renminbi [Chinese currency] business has not had any real impact on local banking."

The first foreign banks were approved to conduct business in Chinese currency in Shanghai at the beginning of 1997, but the terms of the licences were so restrictive that their local currency business has proved negligible.

Now, China is inviting banks in Shenzhen to apply to do local currency business, part of Beijing's very slow programme of opening up city after city to limited foreign bank participation in Chinese currency business.

At the same time in Shanghai, the original nine foreign banks licensed to provide local currency services last year will be joined by another 10 foreign banks, all set to compete for clients among the city's foreign-invested enterprises.

The liberalisation has a clear political logic for Beijing.

As China pursues its 10-year-old bid for membership of the World Trade Organisation, the government is opening the financial services market as evidence of its free market credentials.

But the benefits for foreign banks have not yet been so clear. Indeed, unless the terms of business change substantially, they may well find in the short term they have won little more than a licence for frustration.

Foreign bank managers are generally wary of complaining about the liberalisation process.

For one thing, no one wants to be seen to be criticising the People's Bank of China (PBOC), the central bank, which chooses which banks get approval to do what business. For another, it has become much harder to grumble about the slow pace of financial sector liberalisation in China in the wake of Asia's financial crisis, which has shown the dangers of opening up financial markets too soon.

But there have been some who have spoken out. Earlier this year, John Beeman, country corporate officer at Citibank in China, said: "For the last four or five months, Citibank's renminbi business has gone nowhere." He described Chinese currency business by foreign banks in China so far as "peanuts".


The new finance centre in Shenzhen, where a handful of foreign banks will shortly be allowed to offer Chinese currency services

Foreign currency lending has been a fast growing business for foreign banks in China. By the end of 1997, the total assets of foreign banks in China amounted to \$37.9bn, with total outstanding loans of \$27.5bn and deposits of \$4.5bn, according to the PBOC.

But Chinese currency business has been tiny. Figures released earlier this year showed that in the first year of renminbi business, the foreign banks had extended loans of just over RMB500m (\$60m).

The size of the business so far is a reflection of the licence restrictions, which limit foreign banks to offering services to foreign-invested enterprises in Shanghai. Foreign banks also have a deeper structural problem funding their lending operations – foreign banks generally cannot take deposits from Chinese individuals, whose savings provide the bulk of the funds for domestic banks' commercial lending.

It is significant, therefore, that the issue of new licences has been accompanied by a modest relaxation of the strict rules that have governed foreign bank operations in local currency. In particular, the operational capital ceiling on foreign banks – their float – will be raised to RMB100m from RMB30m, enabling them to draw on more head office funds to help finance local lending.

The PBOC has also made other amendments to the original licences, which allowed foreign banks to offer services to foreign clients such as taking deposits, making loans and conducting settlements and guarantees. At the central bank branch in Shenzhen, officials say foreign banks will in future be able to participate in the issue of domestic syndicated loans.

Foreign banks, naturally, would like to do much more. Robin Brilliant, head of compliance at Standard Chartered in Shanghai, says: "We would, of course, like to have the capacity to attract deposits from local depositors – individuals and corporates – and to widen the scope of the business beyond Shanghai."

Mr Brilliant says the central bank's cautious handling of the financial services liberalisation has been "wise" and he notes that "we have come a long way in the last 10 years". But there are many more services, for example retail banking, credit card issue and cash management, that Standard Chartered would like to offer in the future.

At the Hongkong Shanghai Bank branch in Shenzhen, Allen Chow, the general manager, has started going over the terms and demands of the licence as he prepares HSBC's application.

Although the central bank has said Shenzhen will be opened for foreign banks to offer local currency services, he says it is to early to say what this means for business: "It will all depend on the new regulations. We will have to see how strict or relaxed they are."

FT AEROSPACE CONFERENCE

Move to make airport slot sales legal

By Michael Skapinker, Aerospace Correspondent

Neil Kinnock, the European Union transport commissioner, said yesterday he wanted the buying and selling of airport take-off and landing slots legalised but warned this would take two or three years.

This meant British Airways and American Airlines would have to give up hundreds of London slots free in return for approval of their planned alliance. However, Mr Kinnock's view was attacked by Robert Ayling, BA chief executive, who said there was no European law preventing the sale of slots.

Mr Ayling told the the FT aerospace conference in London: "I was brought up to believe that economic rights should not be lost without their value being realised."

However, Mr Kinnock told the conference that EU law, as agreed by ministers in 1993, made it "crystal clear" that airlines were not allowed to buy and sell slots. He said he was preparing proposals to legalise slot sales. But he added the change would take several years, "even if there was virtually unanimous acclaim for such proposals, which there won't be".

The UK Office of Fair Trading and Brussels have both said BA and American should give up 267 weekly London slots if competing carriers cannot obtain them through the usual allocation procedures.

However, the OFT said last month it was unclear whether EU rules prohibited slot sales. It said Peter Mandelson, the UK trade and industry secretary, should overrule the Commission if it continued to insist the two airlines give up their slots for nothing.

Airlines have until today to submit their views to the UK government on the OFT's proposals. These will then be considered by the OFT and Mr Mandelson, who might have further talks with Brussels.


BA's Robert Ayling: attacked Neil Kinnock's position

The UK government said it would be making no announcement on the alliance today.

Mr Kinnock also told the conference that "the era of aviation state aids in the European Union is at an end".

He said those state aids that had been permitted had served their purpose in making airlines more competitive.

Mr Kinnock said: "All the airlines that have gone through this restructuring process are now performing much better, even though it is clear that some of the advance is a result of the favourable economic climate in recent years.

"Even the slowest to make necessary changes is now operating a new business plan with productive effects and most of the airlines for which aid was authorised in 1994 are now seriously committed to privatisation."

He defended the Commission's decision not to force Air France to repay FFr20bn (\$3.3bn) of state aid despite a European court ruling annulling the subsidy.

Taliban massacred thousands'

Dissidents in ... all for ouster ... Savimbi

US to send Ross ... new peace bid

هكذا من الأصل

Taliban 'massacred thousands'

By Roula Khalaf in London

Amnesty International, the London-based human rights group, said yesterday Afghanistan's radical Taliban militia had killed thousands of Shia civilians following its August takeover of an opposition stronghold.

The massacre was reported to have included 11 missing Iranian nationals. The killings of 10 Iranian diplomats and a journalist, if confirmed by Iran, could raise tensions in already strained Iranian-Afghani relations.

Basing its information on witness reports, Amnesty said the Iranian diplomats and one journalist were killed when the Taliban entered the Iranian consulate in Mazar-i-Sharif, the Afghan opposition headquarters captured by the Taliban on August 8.

Witnesses told Amnesty the bodies were left in the consulate for two days, before being buried in a mass grave in a girls' school.

Amnesty also said that following the takeover of Mazar-i-Sharif, the Taliban had entered the houses of Hazaras, members of a Shia minority in Afghanistan opposed to the Taliban and with links to Iran. According to Amnesty, the Taliban killed older men and children, and took away young men without explanation, while some young women were taken away to serve as maids or to be married off to Taliban members.

Iran, which backs the Afghan opposition to the Taliban, had accused the Taliban of holding the Iranians, warned against harming them and asked the United Nations to investigate their whereabouts.

The Taliban, however, have only admitted to holding 35 Iranian truck drivers while denying any knowledge of the whereabouts of the diplomats and the journalist. A top militia leader has said the diplomats and the journalist were probably dead, but if so, they would have been killed without any orders from the central Taliban leadership.

In a gesture of goodwill and an attempt to ease tensions, a spokesman for the Taliban said yesterday the militia, which controls most of the country, had released five Iranian truck drivers and sent them to Pakistan.

Reports of the killings of the Iranians coincided with large-scale military manoeuvres with 70,000 troops positioned near the Afghan border. "Besides confronting sporadic border violations by the Taliban and the increased number of convoys of armed drug smugglers, the manoeuvres are a warning to those who disregard international laws and aim to hurt our interests and national security," an Iranian foreign ministry told the daily Jomhuri Eslami.

Dissidents in call for ouster of Savimbi

By Nicholas Shaxson

Senior officials from Angola's former rebel movement Unita have called for the removal of Jonas Savimbi, the veteran party leader.

"The officials and members of Unita have decided to suspend Jonas Savimbi and his team from their functions as the leadership of Unita," said Jorge Valentim, who was appointed minister of tourism in a government of national unity set up under the 1994 Lusaka peace agreement. A handful of other Unita members also endorsed the move, which follows the government's call on August 31 for Unita to be suspended from government and parliament.

The government was formed in April 1997 under the Lusaka Protocol, the 1994 peace accord which ended two decades of civil war between the MPLA (Popular Movement for the Liberation of Angola) and Unita.

Observers in Luanda said that while the move did not significantly threaten Mr Savimbi's position, it could reduce the chances of salvaging the peace process.

The MPLA government, along with several other smaller parties, have welcomed the breakaway faction and called on the international community to recognise Mr Valentim and his supporters as the true voice of Unita. But Horacio Junjunvili, deputy Unita representative at a still-functioning joint commission in Luanda to oversee the troubled Lusaka agreement, condemned it. Most Unita officials in Luanda, including the charismatic Unita parliamentary leader Abel Chivukuvuku, failed to back the move. Other Unita figures in Luanda said Mr Valentim, a former Unita secretary for foreign affairs, was being bankrolled by the MPLA government in an attempt to divide and weaken the group.

"Unita here are in a difficult position," a diplomat in Luanda said. "Do they do what Valentim did, or go back to the bush with Savimbi? Or do they face the uncertain consequences of staying in Luanda as loyal Unita members? They are lying low and they all seem to have turned their mobile phones off today."

Diplomats said the move could give the government justification for a military attack by portraying Mr Savimbi and his entourage in their stronghold in the central highlands as being increasingly uncompromising as the distance grows between them and moderates such as Mr Valentim.

The Angolan Armed Forces have been fighting not only against Unita forces in northern Angola but also against Rwandan-backed rebels in the Democratic Republic of Congo.

US to send Ross on new peace bid

The Clinton administration is sending veteran envoy Dennis Ross to the Middle East next week as it steps up mediation to close the gap between Israel and the Palestinians on a West Bank accord, AP reports.

Mr Ross will see Israeli and Palestinian leaders, said US officials travelling with President Clinton.

The administration earlier stepped back from its central role, to see if the two sides could reach an accord themselves but they could not.

Mr Clinton set the stage for a return to high-profile US diplomacy by calling Benjamin Netanyahu, Israeli prime minister, and Yassir Arafat, the Palestinian leader, on Wednesday after holding summit talks in Moscow with President Boris Yeltsin.

The US administration is insisting that Israel yield 13 per cent of the West Bank territory it captured from Jordan in the 1967 Middle East war and turn it over to expand the jurisdiction of Mr Arafat's Palestinian Authority.

Despite his concerns about the impact on Israel's security, Mr Netanyahu has said there could be a deal.

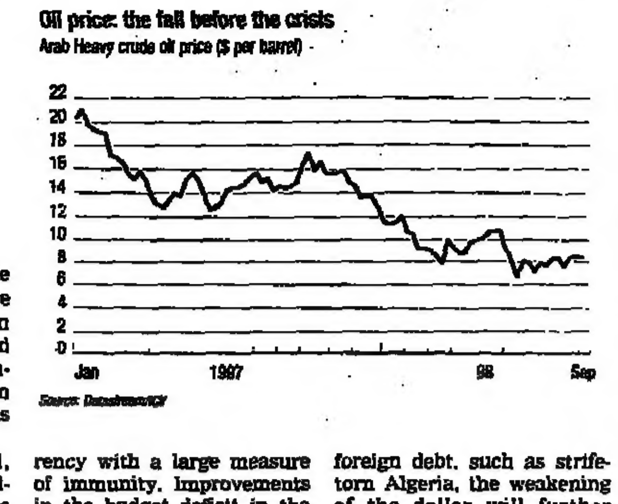
One official said Mr Clinton later called Mr Arafat at a conference he was attending in South Africa.

"We're closer than we have ever been before," the official said about negotiations between Israel and the Palestinian Authority over the West Bank.

Mr Arafat has insisted on the 13 per cent pullback prescribed by the US.

Markets in Middle East and North Africa feel the heat

Economists are warning that management of exchange rate policy will become much more difficult, reports **Roula Khalaf**



After escaping largely unscathed from last year's turmoil in Asia, the economies and underdeveloped financial markets of the Middle East and North Africa are now feeling the heat of the emerging markets crisis.

Global Depository Receipts of companies throughout the region, which are traded on European exchanges, have lost on average 15 per cent for the year, while most domestic stock markets are down for the year.

In Egypt, despite recent government-backed attempts to shore up the Cairo stock exchange, the Hermes Financial index has lost about 19 per cent since the beginning of the year. In Oman, the stock exchange, which was a star performer last year, is down by more than 40 per cent since January.

The most significant effect on regional currencies so far has been last week's pressure on the Saudi riyal. The threat that the crisis will further weaken oil prices has put more pressure on Gulf economies and was the main reason behind last week's speculation against the riyal.

Intervention by the Saudi Arabian Monetary Agency (Sama) re-established the parity rate; Sama quickly ruled out a devaluation.

With the kingdom facing a $12bn shortfall in budgeted revenues, the government has been stepping up budget cuts for the military and has announced increases in air fares and new airport taxes. A rise in gasoline prices is expected before the end of the year.

With these cuts, however, Kevin Taecker, chief economist at Saudi American Bank, estimates the budget deficit target of $5bn will end up almost twice that.

Economists warn that management of exchange rate policy will become much more difficult, even for countries with sound macro-economic fundamentals and large foreign exchange reserves, such as Egypt or Morocco.

The threat that the financial crisis will further weaken oil prices has put more pressure on the Gulf economies

The Lebanese pound, which may be the most vulnerable in the long run, has held up surprisingly well in the past two weeks.

Repeatedly shaken by domestic political uncertainty, a huge budget deficit and high internal debt, the currency came near collapse at the end of last year, as most foreign holders of domestic Treasury bills cashed in their profits.

Bankers in Beirut say little foreign money remains invested in domestic Treasury bills, providing the currency with a large measure of immunity. Improvements in the budget deficit in the first half of the year have helped to keep pressure off the currency.

But with a huge reconstruction programme under way and increased focus on international borrowing, the government and public sector could soon find international capital markets have dried up, further straining the economy.

According to Mohamed el-Erian, European head of emerging markets at Salomon Smith Barney, a main effect of the Russian crisis on the region will be delaying corporate plans to launch eurobonds and global depository receipts, making internal generation of funds more important.

For countries with large foreign debt, such as strife-torn Algeria, the weakening of the dollar will further squeeze the budget. This is occurring at a time of falling oil and gas revenues, which account for more than 95 per cent of the country's foreign exchange earnings.

With Algeria starting to make payments on rescheduled debt and virtually all revenues in dollars, the non-dollar denominated debt, making up about 25 per cent of the $30bn total, will become dearer to service.

"This would be more than an incentive for Algeria to act swiftly on structural reforms such as privatisation and active debt management," says Redwan Merouani, an emerging markets director at France's Société Générale.

Casablanca shares, Page 22

US set to approve cancer drug

By Victoria Griffith in Boston

The first colon cancer treatment in 40 years was recommended for approval yesterday by a US Food and Drug Administration advisory committee.

The treatment, developed by the pharmaceutical group Pharmacia and Upjohn and to be marketed under the brand name Camptosar, was shown to reduce tumours in patients and increased life expectancy by up to 30 per cent. Colon cancer is the most lethal form of cancer after lung cancer, killing nearly half of all those who contract it.

Camptosar is recommended for sufferers in the late stages of the disease, after chemotherapy has failed to stem the cancer. Unfortunately, many patients are included in the high risk category, because most people with colon cancer are not diagnosed until the cancer is well developed

Full FDA clearance almost invariably comes shortly after recommendation by an advisory committee.

'NETTING' OF CONTRACTS SAFEGUARDING LEGISLATION WILL NOT COME INTO EFFECT UNTIL DECEMBER

Japan derivative deals at risk

By Gillian Tett in Tokyo

Investors holding derivatives contracts with Japanese financial institutions such as the troubled Long Term Credit Bank of Japan (LTCB) may not be fully protected under Japanese law if an institution collapses.

The concern has arisen because Japanese law does not yet guarantee that the "netting" of counterparty derivative contracts will be respected if a bank or broker collapses. Netting is the process by which the different losses and profits between creditors are offset against each other and paid off in one lump sum.

Japanese officials say the loophole will be plugged by legislation introduced as part of Big Bang financial deregulation designed to bring the country into line with with global standards. But this legislation will not come into effect until December.

The legal uncertainty is causing unease among some international investors because of mounting concern about the health of some Japanese financial institutions.

The Financial Supervisory Agency (FSA), Japan's banking watchdog, says the gross notional volume of derivatives contracts held by Japanese banks totals Y2,090,000bn ($15,000bn) – although the actual "netted" position of actual losses or profits would be far smaller.

Most of these contracts are covered under an agreement forged by the International Swaps and Derivatives Association. Bankers believe that in the event of a collapse the Japanese courts would uphold any netting agreement. However, this is not stipulated under local law and there has been no precedent to date, they say.

Yoshinobu Yamada, analyst at Merrill Lynch said: "The lack of a legal framework would make dealing with the derivatives problem complicated [in the case of a collapse]. This uncertainty undermines confidence."

Christopher Well, a lawyer with White and Case, the US law firm, added: "There will be a collective sigh of relief in December when the lingering doubts are eliminated. But there are questions now about whether a trustee could reverse a netting agreement now."

The issue of derivatives has become particularly controversial because parliament is debating LTCB's future. LTCB is in merger talks with Sumitomo Trust and the government is expected to inject at least Y500bn of public money to ensure the merger is consummated.

The political opposition says public money should not be used to save LTCB but the ruling Liberal Democratic party insists that a collapse of LTCB would create a systemic risk because of its derivatives exposure.

The degree of LTCB's derivatives risk is disputed. LTCB says it has reduced its exposure from Y51,500bn to Y40,000bn between March and July, and adds that most contracts are "plain, vanilla" contracts, such as swaps in the yen market. Some government officials conclude therefore that unwinding the contracts would be a relatively simple matter.

However, the FSA has indicated that LTCB's exposure is nearer Y80,000bn and some bankers fear the exposure may contain complex structures which would be difficult to unwind. "It could lead to a very negative reaction in the markets," says one Bank of Japan official.

Most western bankers believe the government will rescue LTCB but many have been re-examining their derivatives contracts with Japanese institutions. One lawyer with a US investment bank yesterday said: "We assume that the government would protect us in the last resort, since we are all in the same boat. But until December there will be an uncertainty, however small."

EMERGENCY ALERT PRESSURE TO IMPROVE INTELLIGENCE SYSTEMS

Japan fears N Korea will fire second missile

By Michiyo Nakamoto in Tokyo

Japan yesterday warned that North Korea was poised to fire a second missile at the Japanese archipelago and put its defence forces on emergency alert.

"We have put defence and emergency measures in place with a sense of urgency, so that we can deal with any kind of situation," said Hiromu Nonaka, chief cabinet secretary.

On Monday, North Korea launched a ballistic missile which flew across Japan and landed in the Pacific Ocean. The test launch of the Taepodong-1 ballistic missile, which puts Japan within range of a North Korean missile attack, has sent shock waves throughout Japan. The prime minister, Keizo Obuchi, said the North Korean action was "unpardonable".

Mr Nonaka said the government had received information that a second launch could be imminent, possibly on Saturday when North Korea's *de facto* leader, Kim Jong-il, is expected to be named the country's head of state. Alternatively, senior Japanese officials said, the second launch could come on Wednesday on the 50th anniversary of the founding of the Stalinist state.

Muneo Suzuki, Japan's deputy chief cabinet secretary, said a second missile launch by North Korea would be "totally unacceptable" and would meet with "a resolute stance".

Japan has already suspended food aid and broken off talks over normalisation of relations in retaliation for the the first missile launch. It has also postponed indefinitely financial assistance for two nuclear power reactors designed to help ease North Korea's energy shortage.

Chartered flights from Japan to North Korea have been suspended, a move which amounts to economic sanctions as many air travellers take food and other provisions to their relatives and friends in the impoverished state.

The European Union yesterday expressed concern over North Korea's ballistic missile launch and urged Pyongyang to refrain from further tests. "The missile test carried out by North Korea creates additional tensions in a region which already faces a precarious security situation," it said.

This week's missile launch is likely to increase the pressure on Japan to improve its intelligence capabilities and beef up its security arrangements. Fukushiro Nukaga, director-general of the Defence Agency, told a cabinet meeting that the agency was considering implementing a defence system against ballistic missiles.

Pyongyang's action has also highlighted Japan's dependence on the US, with which it has a comprehensive security pact, for any information regarding North Korean military moves. US forces stationed in Japan informed Japan of Monday's missile launch.

Analysts say the vulnerability of security arrangements in east Asia have been exposed and the launch could also have far-reaching implications for the stability of the region.

Any Japanese moves to increase its military capabilities are likely to meet with stiff resistance from its Asian neighbours, particularly China, which are concerned about a possible resurgence of Japanese military power.

The US would not approve of Japan having its own sophisticated intelligence capability, says Mr Kensuke Ebata, a military analyst in Tokyo. "Obviously, there is no intelligence capability and no ability to strike at a missile in mid-air," says Mr Ebata. "The US doesn't want Japan to have its own defence strategy. This is a very big political problem," he adds.

US opposition could explain why Japan did not launch its own reconnaissance satellite after North Korea last fired a missile into the Sea of Japan in the spring of 1993.

"Our key objective is a co-operative project of some kind," says one US official.

The US wants Japan to co-operate instead in the development of a theatre missile defence (TMD) system, which would use satellites to detect the launch of hostile missiles and deploy anti-missile weapons to destroy them.

Proponents of the TMD and of greater US-Japan defence co-operation hope that this week's lesson will encourage Japan to allocate funds for the TMD project and act quickly to implement new defence guidelines that aim to strengthen co-operation between the two countries in regional emergencies.

But that would alienate China, which has made no secret of its disapproval of the TMD and the new guidelines. The Japanese government is believed to have delayed budget allocation for TMD research until after a state visit by the Chinese president, Jiang Zemin, originally scheduled for this month. Japan's other Asian neighbours are also nervous about an increase in Japanese military capabilities.

The Japanese government insists it will take a firm stand against aggressive tactics by North Korea. But, caught between the conflicting demands of the US and China, Japan will be hard pressed much to improve its security arrangements, until, at least, the next missile.

UNANIMOUS DECISION FORMER DEPUTY PM DENIES ALL CHARGES

Anwar expelled from Malaysia's ruling party

By Sheila McNulty in Kuala Lumpur

Anwar Ibrahim, the sacked deputy prime minister of Malaysia, was expelled from the dominant Umno party yesterday by a unanimous decision. But he continued flatly to deny allegations of misdeeds and demanded a fair hearing by the Supreme Council of the Umno party, which met into early this morning to consider his expulsion.

About 2,000 supporters of Mr Anwar shouted "Long Live Anwar" and "Justice For Anwar" as he arrived at the emergency session. Riot police stood by.

The supporters stayed outside as the hours passed to await the decision of meeting, led by Mahathir Mohamad, the prime minister and party president, who sacked his deputy and heir apparent earlier this week. Dr Mahathir was briefing party members last night on his dismissal of Mr Anwar from his posts as deputy prime minister and finance minister before asking for a vote.

Fifteen trade unions, human rights groups, non-government organisations and opposition politicians issued a joint statement: "The total lack of transparency in this episode is a reflection of the utter contempt and disregard that the prime minister has for the views of the people of the country."

"It has the makings of a major political crisis," said Lim Kit Siang, parliamentary opposition leader. Mr Anwar said the charges were part of a "high-level political conspiracy" against him.

He rejected questions on whether he might form a party of his own if expelled, saying he was committed to Umno and wanted to present evidence of a set up to the council. "Unless the environment is free, it's going to be rather difficult. But we have to try."

Earlier, affidavits alleging Mr Anwar engaged in sexual improprieties with both sexes, and compromised national secrets were filed in High Court. The allegations first appeared in a book, "50 Reasons Why Anwar Cannot Become Prime Minister", which emerged in spite of an injunction against its distribution.

Police say Mr Anwar is under investigation in connection with its contents.

"This is petty, preposterous and it stems from petty jealousy," Mr Anwar said. He denied all allegations and said he had evidence they were part of a "high-level political conspiracy" against him.

But Dr Mahathir refused to listen and ordered him to resign or face dismissal and charges against him, Mr Anwar said.

"I am not prepared to submit," Mr Anwar said. "I challenge him to use democratic means to unseat me." His supporters raised their fists and yelled, "Long Live Anwar," and "God is Great."

The two men have disagreed throughout about how to respond to the economic crisis gripping Malaysia.

Mr Anwar called for reform. But Dr Mahathir stoked nationalism by alleging a conspiracy by outsiders and has introduced radial capital controls to insulate the economy.

"I am committed to reform, the struggle against corruption and abuse of power and I will not concede or compromise on this," Mr Anwar said.

But he still respects Dr Mahathir. "I do regard him as a father, though not all fathers treat their children fairly," Mr Anwar said. He urged supporters to remain calm, even if he were arrested.

Mr Anwar declined to say whether he still aspired to become prime minister or whether he would challenge Dr Mahathir at next year's Umno election.

And then, as neighbours peered over balconies, he moved into the crowd to shake supporter's hands. His aides were clearly shaken. "If the number two man in this country cannot be satisfied justice will prevail, I feel sorry for this country," Mr Anwar said.

Anwar Ibrahim speaking to press at his home yesterday Reuters

Defence ministry raided over financial scandal

By Michiyo Nakamoto in Tokyo

Japanese prosecutors yesterday raided the offices of the defence ministry and arrested the former deputy head of the agency's procurement office over a financial scandal.

It is the first time the Japanese defence headquarters has been investigated by prosecutors since a spy scandal 18 years ago. The move has shocked the political and business community.

Prosecutors also arrested officials from NEC, one of Japan's leading electronics manufacturers, and Toyo Communication Equipment, a communications equipment maker listed on the Tokyo Stock Exchange which is affiliated with NEC.

The chairman of Toyo, Shinichi Ito, was among those arrested on charges of breach of trust by causing damage to state finances.

The raid on the defence agency, which comes as Japan faces the threat of a further missile firing by North Korea in its direction, has caused not just embarrassment but turmoil at the organisation.

Investigations showed that Toyo Communication had been found to have overcharged the agency for products procured between 1989 and 1993. However, the agency slashed the amount to be refunded by Toyo Communication after Kenichi Ueno, former deputy head of the defence agency's procurement office, insisted on a reduction.

The Tokyo Public Prosecutors Office says Mr Ueno agreed that Toyo Communication would have to refund only Y874m ($6.3m) out of Y2.5bn it owed the defence agency.

Mr Ueno is believed to have demanded that Toyo Communication hire two retirees from the defence agency, apparently in exchange for the repayment cut. In attempting to determine how much to charge Toyo Communication, Mr Ueno is believed to have consulted with an official in charge of defence contracts at NEC, which owns 39 per cent of Toyo.

Another company 100 per cent owned by NEC has also been implicated in overcharging the defence agency.

Officials at Toyo Communication have told the Japanese press they overcharged the defence agency and then later accepted retired officials from the agency on the advice of NEC.

It was also revealed that Mr Ueno permitted Toyo to repay the funds it owed the defence agency out of annual defence contracts rather than as a lump-sum payment as requested by Mr Ueno's own subordinates.

Toyo Communication supplies the defence agency with equipment to distinguish between friendly and enemy personnel. The company has suffered a drop in sales as demand for its pagers and other mobile communications equipment has slumped. Pre-tax profits plunged from Y3.7bn in the year to March 1997 to Y831m in the last fiscal year.

Floods and a hidden disaster afflict Bangladesh

The government has called for aid but is being criticised for leaving it too late, s. David Chazan

Like the rest of Asia, Bangladesh is suffering. With the longest lasting floods on record showing no sign of abating, more than half the city of Dhaka is under water.

The price of rice has increased substantially. About half the seedlings for the next crop have been washed away by the floods which have inundated two-thirds of the country, and severe food shortages are feared in the coming months.

This week, the government increased its appeal for foreign aid from $681.5m to $879m, about $7 a head for a population which is estimated at 125m. Shah A.M. Kibria, finance minister, said much of the money would be needed after the floods receded, to rebuild damaged roads, housing, hospitals and schools.

But the government has been criticised for leaving it too late to appeal for emergency aid, and the response so far has been slow. Donors are now concerned about what they see as a haphazard approach to relief operations.

"There are two disasters here," said a western diplomat. "There's the one you can see, and then there's the one you can't see, which is the chaotic way food and medicines are being distributed."

Werner Kiene of the World Food Programme (WFP) said he did not know whether the government food distribution system was efficient or not, but he was convinced that working through the government was the best way to proceed.

But, he added, the WFP and non-governmental organisations (NGOs) had asked the Bangladeshi government to allow them to play a greater part in distributing food and allocating the VGF, or vulnerable group feeding cards which people are so anxious to secure.

"We're trying to explore how the NGOs can steer people who they feel are in need, to the government stores," Mr Kiene said.

Other relief officials and western diplomats were blunter. "We're concerned about corruption in the food distribution chain if it's left to the government," said a diplomat.

Slum dwellers in Dhaka allege that some officials have used the ration cards as a means of securing political patronage.

Some members of parliament are accused of handing out more food in areas where support for their political party is known to be strong.

Typical of the slum dwellers is Abdul Khalek, a rickshaw puller, who says he had missed his chance to receive regular food handouts because his slum home in Dhaka was too far from the main road.

People living nearer were given cards that entitled them to collect food from government emergency stores, but Abdul Khalek's family have been given only 1.5kgs of rice in the past two months.

A government relief official, however, said the distribution network was "time-tested and democratic". But there were "rumours that not all this food reaches those who need it most," Mr Kiene said.

However, he added, most other countries would be less well prepared to distribute emergency food than Bangladesh, where "at any given time, 20m-30m people eat only half what the rest of the world eats".

مكررا من الأصل

ANTITRUST PROSECUTION RECORD OF GATES TALKS SOUGHT

Microsoft objects to court 'ambush'

By Louise Kehoe in San Francisco and Richard Wolffe in Washington

Microsoft returned to court yesterday as the US government sought to prove that the software giant repeatedly abused its monopoly power to protect Windows, its flagship operating system.

Antitrust prosecutors demanded Microsoft produce documents and databases with any reference to meetings with Intel, the world's largest chipmaker, and Apple, the personal computer pioneer. In particular, the government asked for details of discussions between Bill Gates, Microsoft's chief executive and founder, and any representative of Intel.

However, Microsoft accused the government of attempting to "ambush" it by broadening the case just three weeks before the case is scheduled to go to trial.

In a volley of legal manoeuvres, Microsoft demanded that the issues in the trial be limited to those originally raised by the US government and 20 states when they filed their lawsuits in May.

The government said it was attempting to show that Microsoft had "engaged in a comprehensive plan and pattern of anticompetitive conduct to monopolise markets (such as internet and multimedia software markets) that threaten its operating system monopoly".

Originally, the Justice Department's case focused on Microsoft's activities in the market for internet browser software.

It alleged the company had attempted to negate competition from Netscape Communications, the internet browser software leader, by adding its own browser to the Windows operating system program.

Microsoft yesterday accused the government of moving well beyond the "surgical strike" officials had initially described, and transforming the case into "an IBM-like 'kitchen sink' monstrosity". The latter was a reference to a failed antitrust case against IBM that dragged on for years in the 1970s.

If the court allowed the case to be broadened, the trial should be delayed by at least six months, Microsoft argued. The government countered by accusing Microsoft of trying to delay the proceedings.

Microsoft said: "We are ready to go to trial and refute the accusations the government brought earlier this year after a 21-month investigation. But the government has apparently lost faith in its case and is now trying to rewrite it without going through the correct legal procedures."

Microsoft said the government was trying to broaden its case because its original charges had been undermined by a June appeals court ruling in a related case.

The appeals court ruled that Microsoft was free to add new features, such as an internet browser, to its Windows program.

Confrontation flares over Million Youth solidarity march

Tomorrow's event may do little for young blacks, reports **John Labate**

It is wait-and-see time for residents of northern Manhattan.

Tomorrow the streets of Harlem will fill with supporters of the Million Youth March, an event that, although unlikely to live up to its name, is still expected to draw many tens of thousands of young people from as far away as Ohio and California. The many March supporters describe it as a day of solidarity for black youth, an event meant to prepare young people for the next millennium.

The build-up to the March, however, has been anything but peaceful, with confrontational and often racially charged accusations filling New York newspapers and airwaves as talks between march organisers and city officials broke down in July.

At the centre of the controversy is the March's outspoken organiser, Khallid Abdul Muhammad, once an aide to Louis Farrakhan, the leader of the Nation of Islam. Mr Muhammad has in recent years become most noted for racial comments against Jews, Catholics and whites. Incendiary remarks he made in a speech in 1993 were enough for Mr Farrakhan to eject him from his post.

The coming march has brought him back into New York headlines, especially since July. What followed was a lawsuit and then a last-minute court appeal. City officials, under Mayor Rudolph Giuliani, fought an unsuccessful campaign to have the march site and date changed, citing public safety concerns. The mayor has been a vocal critic, calling the event a "hate march".

But two recent court decisions have backed the right of the marchers to gather on their chosen date, during the busy Labor Day weekend, and at their intended venue. But in a victory for the city, the court ruled that the march must be contained to four hours and six blocks – down from the 30 blocks originally requested.

Khallid Muhammad (left) and fellow activists visit an arson-hit African American church in 1996 AP

In recent days community leaders have spoken in support of the youth march, most notably Congressman Charles Rangel, while voicing strong opposition to Mr Muhammad. But in a telling sign, the National Association for the Advancement of Colored People (NAACP) has not backed the New York Youth March, choosing instead to advance a separate and larger youth gathering planned for Atlanta.

The glaring irony, of course, is that the plight of black urban youths has been lost amid the rhetoric. In New York City, unemployment rates remain far higher for those between the ages of 16 and 19 who are black (39 per cent) than for their white (25 per cent) or hispanic (28 per cent) peers, according to the latest figures available.

The real question remains how many of the youths who attend tomorrow's march will choose to separate the march's message from the messenger.

Mr Muhammad is clearly on the rise in a divided black community that seeks rapid changes in a city of great ethnic diversity.

There are also risks for Mr Giuliani, who may have only fanned the flames of confrontation by forcing the march into the courts.

Mr Giuliani is widely considered to be seeking higher office once his term as mayor runs out in 2001, but his stand against Mr Muhammad is unlikely to harm his credentials among core constituents, despite the fact that to some his record regarding civil liberties remains patchy at best.

For the rest of New York, the hope remains that the thousands of youths who gather tomorrow will make their march the peaceful exercise of rights that the organisers say it will be.

NEWS DIGEST

RENO TO DECIDE ON INQUIRY

Clinton campaign funds investigation re-opened

President Bill Clinton's political problems continued to mount yesterday as it emerged that the Justice Department had re-opened an investigation into allegations that his 1996 election campaign violated federal regulations.

Janet Reno, attorney general, is expected to decide as early as next week whether the evidence merits the launch of a formal 90-day preliminary inquiry that could trigger the appointment of a special prosecutor.

Republicans have repeatedly called for Ms Reno to appoint an independent counsel to investigate the matter, but she has so far insisted there is not enough evidence of legal violations to merit such a move.

However, new evidence appears to have made her more sympathetic to the notion. Because of its scale, any formal investigation would almost certainly drag on for years, potentially affecting Mr Gore's campaign to succeed Mr Clinton in 2000. **Mark Suzman, Washington**

US OUTPUT SLOWS

Productivity falls in quarter

US non-farm labour productivity rose at a 0.1 per cent annual rate in the second quarter, after a 3.5 per cent gain in the first quarter, the US Labour Department said yesterday. Business productivity as a whole fell at a 0.2 per cent rate in the second quarter, as output slowed markedly from the first quarter. Unit labour costs shot up at an annual 4.1 per cent, the fourth consecutive quarter in which they rose more than 4 per cent. Manufacturing productivity rose at an annual rate of 2.5 per cent in the second quarter, twice the pace of non-farm productivity.

In a separate report, the National Association of Purchasing Management said the increase in non-manufacturing business activity slowed in August, largely a result of the manufacturing slowdown, and employment growth lagged behind earlier months. **Nancy Dunne, Washington**

CANADIAN DOLLAR DEFENCE

Foreign reserves drop

Canada's foreign reserves fell by a record US$4.555bn last month as the Bank of Canada repeatedly intervened in foreign exchange markets in a largely futile effort to prop up the falling Canadian dollar.

The Finance Department said yesterday that Canada's official reserves dropped by almost 20 per cent in August, declining from US$22.52bn to US$17.965bn.

Since last October, when the Asian financial crisis began to weaken commodity prices and put pressure on the Canadian dollar, the government has spent more than US$7bn defending the currency. **Edward Alden, Toronto**

GURRIA HEADS FOR IMF MEETING

Mexico performance defended

The knock-on effect of turmoil in international financial markets was obscuring the solid performance of the Mexican economy, Angel Gurria, Mexico's finance minister, said on the eve of discussions between Latin American finance ministers and the International Monetary Fund.

Mr Gurria was addressing reporters before travelling to Washington for meetings yesterday and today with Michel Camdessus, IMF managing director. Since the Russian crisis, The peso had depreciated by 10 per cent, manifesting what Mr Gurria called an "unjustified volatility" in Mexico's financial sector. This had prompted a sharp rise in interest rates to 28 per cent, he said. **Lucy Conger, Mexico City**

BRAZIL BASE RATE CUT

Monetary policy underscored

Brazil's government has cut its central bank base lending rate and raised its assistance rate. The move was seen as an attempt to reassure public opinion that monetary policy remained unchanged despite turmoil on world financial markets, while signalling to financial markets that interest rates could rise if necessary to protect the currency.

The base rate, known as the TBC, was cut from 19.75 per cent a year to 19 per cent. Its assistance rate known as the Tban, rose from 25.75 to 29.75 per cent.
Jonathan Wheatley, São Paulo

On the web today
- Venezuelan coup plotter runs for office
- US financial services reform bid disarray
- Ecuadorean and Peruvian presidents meet today

http://www.ft.com/americas

MEDICINE GOVERNMENT ADVISERS SAY GROWING DRUG RESISTANCE MAY LEAD TO 'A RETURN TO DARKER TIMES'

Cut use of antibiotics, ministers are told

By Nicholas Timmins, Public Policy Editor

Government advisers yesterday set out plans for significant cuts in the use of antibiotics, warning of the dangers of increasing drug resistance.

The government's standing medical advisory committee said the use of antibiotics to promote growth in animals – a market worth £12m ($20m) a year – should cease. It also put forward measures which could see a 20 to 30 per cent reduction in the £220m of antibiotics prescribed annually by family doctors.

The committee said overuse "threatens a return to darker times, when surgery was restricted to simple operations on the otherwise healthy, and when organ transplants and joint replacements were unthinkable".

Half of antibiotic use in the UK, which is low by international standards, is in humans and half in animals. Family doctors account for 80 per cent of human use.

A national campaign will attempt to persuade doctors and patients that antibiotics are not needed for the vast majority of colds and their use in simple cystitis should be limited to three days.

Guidelines, which doctors will be expected to follow, will be set out by the planned National Institute for Clinical Excellence.

A national steering group will monitor the spread of resistance and the effectiveness of measures to contain it. The group will encourage incorporation of the guidelines into computerised decision-support systems for doctors. The committee says the use of antibiotics as growth promoters in animals is "a major concern" which risks undermining new medicines even before they enter human use.

They should be used in animals "only for clinical conditions where their use is likely to provide a genuine health benefit".

Dr Diana Walford, director of the Public Health Laboratory Service, said the message about antibiotics was "the more you use them, the more you lose them". Dr Kenneth Calman, the chief medical officer, said they must be treated as "a valuable and non-renewable resource, to be treasured and conserved in everyone's interest".

Dr Walford said half of GPs' prescribing was for colds, coughs and sore throats which are usually viral in origin and unaffected by antibiotics. Two-thirds to three-quarters of such prescribing was "inappropriate".

The Association of the British Pharmaceutical Industry yesterday endorsed the recommendations, but said there may be financial implications for the industry.

New pricing mechanisms may be needed "to ensure that investment in the development of new antibiotics remains viable".

The chief medical officers of the European Union meet in Copenhagen next week to discuss strategies for preventing the growing threat of antibiotic resistance.

The UK package puts country in the forefront of tackling what is increasingly seen as a world-wide problem.

Drug resistance does not respect national boundaries and even during the seven months the committee was working one particular drug-resistant bug, vancomycin-intermediate MRSA, originally only found in Japan, had turned up in the USA and France.

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Names jubilant as Lloyd's vows to support them

By Jim Kelly in London

Individual investors at Lloyd's yesterday abandoned a threat to call an emergency general meeting after the market's ruling council pledged long term support for their role.

Max Taylor, Lloyd's chairman, wrote to all the investors – known as Names – promising that there "will be no move to withdraw the rights of individual Names to continue trading in the Lloyd's market".

"I believe that Names are here to stay at Lloyd's and we now have a clear commitment to fair and equitable treatment that will enable us to trade forward," said Michael Deeny, chairman of the Association of Lloyd's Names.

Lloyd's privately believes Names misunderstood constitutional changes proposed by the Kent Committee in March as an attack on their place in the market, where their influence is being displaced by corporate capital.

Names were jubilant yesterday, saying Mr Taylor's letter represented a change in the attitude of Lloyd's to individual Names.

Lloyd's privately acknowledged that the Kent Committee's proposals – which have largely been accepted – could have been misinterpreted and modifications were made.

- Traditional Names who convert to limited liability will be able to vote with Names – not with the corporate investors. This helps protect their representation.
- There will be guaranteed representation for private capital on Lloyd's council as long as Names continue to provide at least 5 per cent of market capacity – rather than 10 per cent recommended by the Kent Committee.
- There will be lower thresholds for calling general meetings.

"The reality has been that there was a campaign to encourage Names to depart from the market – this marks a sea change in the attitude of the corporation at least," said one senior Name.

Portrait of a lady: Baroness Thatcher, the former Conservative prime minister, praised an artist yesterday for portraying her as a "a formidable woman … formidable because the things for which she stood are enduring." The painting was commissioned by the University of Buckingham to mark the end of Lady Thatcher's six years as chancellor of Britain's only private university. James Gillick, the artist, said: "When she looks you in the eye it's like looking at two loaded Exocet missiles." PA

European soccer 'super league' rejected

By Patrick Harverson in London

The 20 soccer clubs in the Premier League yesterday agreed to oppose any attempt to establish a breakaway "super league" in Europe and declared unanimous support for Uefa, the European game's governing body.

The decision is a blow for Media Partners, the Italian marketing firm behind the proposal, which is attempting to lure away three top English clubs and counterparts from mainland Europe.

But Media Partners – which presented its proposals to the Premiership clubs at their meeting in London yesterday – last night said it remained confident of achieving its aim of reforming European club soccer.

Rodolfo Hecht, the firm's president, said: "We had a very productive meeting. The Premier League was very keen to become involved in the European Football League project."

Despite Media Partners' upbeat appraisal of the meeting, Premier League officials said they felt the tide had shifted firmly in Uefa's favour. "The clubs want to remain within Uefa," said Peter Leaver, the league's chief executive, adding that the top soccer leagues in Italy and Spain agreed.

Gerd Aigner, general secretary of Uefa, also attended yesterday's meeting, where the clubs agreed that any future dialogue with Uefa or Media Partners would be conducted solely through the Premier League.

This means the three clubs approached by Media Partners – Manchester United, Arsenal and Liverpool – would no longer talk to the firm independently, said Mr Leaver.

The Premiership clubs also affirmed their stance on qualification for European football which, they said, must be based on the performance of clubs in the season prior to the competition.

Media Partners plans to grant 18 "founder" clubs in its super league a three-year exemption from qualification.

There was a suggestion at the meeting that Uefa might accommodate Media Partners at some point in the future, even though the organisation has a contract with Team Marketing, the Swiss firm, for it to handle the marketing rights to Uefa competitions until 2003.

NEWS DIGEST

CONFEDERATION OF BRITISH INDUSTRY

Schröder to address employers after election

Gerhard Schröder will use November's conference of the Confederation of British Industry, the employers' lobby, as one of his first international platforms if his Social Democratic opposition wins this month's German general election. The CBI said yesterday that Mr Schröder had agreed to address the conference – in the English Midlands city of Birmingham – whatever the outcome of the election. He will head an international line-up at the conference which also includes Romano Prodi, the Italian prime minister, and Carlos Menem, the Argentinian president. The programme also features a debate on European competitiveness and the global economy involving Sir Alex Trotman, chairman of Ford, and Ernst-Antoine Seillière, controversial president of the Patronat, the CBI's French equivalent. The sensitive issue of the single currency has been relegated to the conference fringe after last year's heated debate. CBI officials said it had decided there was little more to add until after the euro was introduced next year. **David Wighton, London**

THE ECONOMY

Wages 'pushing up prices'

Signs of higher wages pushing up prices knocked some of the gloss off figures showing a slowdown in growth in the UK service sector yesterday. The monthly survey of 500 companies by the Chartered Institute of Purchasing and Supply found that growth continued during August but at the slowest rate since the survey started two years ago. The report's business activity and new business indices both continue to show expanding activity but the institute said "growing numbers of companies reported demand for services to have fallen". Geoffrey Dicks, at Greenwich NatWest investment bank, said: "The trends across the whole survey are clear. The service sector is still expanding but at a much slower pace than earlier in the year."

A majority of companies surveyed said they were still having difficulties recruiting qualified workers, especially for information technology. "Higher wages and salaries continued to be the main upward pressure on costs, as higher salaries are offered to attract suitable staff," the report said. **Richard Adams, London**

BRITISH TELECOMMUNICATIONS

Multimedia service launched

British Telecommunications yesterday announced a service designed to use ordinary telephone wires for high speed internet and multimedia services. But analysts said the service is old technology attractively repackaged. BT said its Highway service, available from September 15, is the first step in a process which should see every UK household connected to advanced digital communications by 2003. It said the technology – developed by Marconi Communications and Ericsson, the Swedish telecoms manufacturer – will give customers high-speed access to the internet while allowing simultaneous conventional voice calls. Afshin Mohebbi, managing director of BT's business division, said only 1.8m UK households were connected to the internet. David Cleveley, managing director of Analysys, the telecoms consultancy, said the launch was an excellent move for BT in the absence of ISDN products from its principal UK competitors. But he said the product was essentially 10-year-old ISDN technology in new packaging. **Alan Cane, London**

GENETICALLY MODIFIED FOOD

Royal Society urges regulator

The Royal Society, Britain's senior scientific academy, yesterday urged the government to set up a "super-regulator" to oversee development of genetically modified crops and food. The recommendation was part of the society's response to the growing controversy over "GM foods". "Although mechanisms are already in place to regulate many individual aspects of GM technology there is no means for looking at GM technology as a whole," it said. The super-regulator would span the responsibilities of departments dealing with agriculture, health and the environment. It would enforce regulations and strengthen guidelines for farmers growing GM crops.

"Although the debate has focused mainly upon the risks of this technology, we must not lose sight of its huge potential benefits," said Sir Aaron Klug, society president. **Clive Cookson, London**

CITY TELEVISION STATIONS

Local cable network closes

Channel One, the cable channel owned by Daily Mail & General Trust, is to close after amassing losses of £40m ($66m) in a failed effort to pioneer local cable television networks in the UK, matching those in the US. DMGT announced the closure of the wholly-owned stations in London and Bristol, in south-west England.

The company would not comment on the size of the losses but said it could not see the enterprise making money up to 2002. Some industry executives said the announcement cast doubt on the future of Live TV, the rival cable-only channel that is owned by Mirror Group.

However, Mirror said it was gaining higher revenues from advertising on its services. **John Gapper, London**

Integration costs hit profit at state nuclear company

By Andrew Taylor, Utilities Correspondent

British Nuclear Fuels, which expects by the end of this year to have completed its $1.2bn joint venture takeover of the nuclear activities of Westinghouse of the US, yesterday reported a dip in profits.

The cost of integrating its recently-acquired Magnox Electric nuclear power plants pushed pre-tax profits down by almost 8 per cent to £199m during the 12 months to the end of March.

But the state-owned nuclear group increased the dividend paid to the UK government from £46m to £53m. One-third of BNFL's turnover last year was generated outside the UK.

The group, seen as a privatisation candidate, experienced a rollercoaster year which included its takeover of Magnox Electric, the calling-off of a £900m venture with Siemens of Germany and the award of two big US nuclear clean-up contracts.

John Taylor, chief executive said pre-tax profits would have been a repeat of the £216m the previous year but for the costs of integrating the Magnox nuclear plants. There were also problems in bringing the group's existing Magnox reprocessing interests back on stream.

He cautioned that further integration costs would arise. These could leave 1998-99 pre-tax profits at between £180m-£190m. Westinghouse was unlikely to contribute to profits, with a deal not expected before the end of this year.

The purchase will leave Morrison Knudsen, BNFL's joint venture partner, with a 60 per cent stake in Westinghouse's nuclear business.

BNFL has already broken into the US market with the award in July of a contract to clean up US military nuclear waste at Hanford, in Washington state, which BNFL said could be worth up to $6.9bn. This is in addition to the group's existing $2.5bn order book in the US.

Northern Ireland politicians dance to the Clinton tune

Diplomacy between the unionist leader and the Sinn Féin president has been carefully choreographed, says **John Murray Brown**

David Trimble and Gerry Adams were engaged in a ritual dance yesterday with the anti-nationalist first minister of Northern Ireland being discreetly prodded to agree to a face to face meeting with the president of Sinn Féin, the political wing of the Irish Republican Army.

The diplomacy was carefully choreographed to coincide with yesterday's visit by President Bill Clinton in an effort to give fresh momentum to a process badly damaged by recent events, notably the bomb attack in Omagh by the breakaway Real IRA.

The pace of the week's developments has been hectic. After a hardline statement from the IRA at the weekend ruling out decommissioning of weapons, Mr Adams adopted a more conciliatory tone. He went as far as he has ever done to repudiate the actions of republican terrorists, urging that the violence of the Omagh bombing "must be a thing of the past". In a further gesture to unionists the party on Wednesday nominated Martin McGuinness, its chief negotiator, to sit on the body set up to oversee decommissioning.

Sinn Féin was under considerable pressure following the Omagh bomb to demonstrate on which side of the new dividing line it stood – with the peacemakers or with those intent on destroying the peace.

The Sinn Féin gestures were secured with considerable input from Washington. The White House made it known that the president had been in telephone contact with Tony Blair, the UK prime minister, on the night before his recent grand jury testimony in the Monica Lewinsky scandal.

He told one Northern Ireland assembly member that he had been "working hard on the decommissioning issue for the past three weeks". Officials say his staff has been in almost daily contact with Sinn Féin and the other parties in a bid to secure some movement at a time when when public faith in the peace process had been badly shaken.

Sinn Féin's declaration has increased the likelihood of a first meeting between Mr Adams and Mr Trimble. The Ulster Unionist leader was giving nothing away publicly yesterday. But in his speech to local business and community leaders, President Clinton indicated a commitment had already been given by Mr Trimble. The president commended the "words and actions of your political leaders and their willingness to meet".

The planned session of party leaders in Belfast, the Northern Ireland capital, on Monday would provide the obvious cover. But the handshake, if there is one, is likely to be out of sight of the cameras.

Sceptical unionists will dismiss any such meeting as a public relations coup for Sinn Féin. But Mr Trimble appears more sanguine. Even Jeffrey Donaldson, the dissident Ulster Unionist MP – who defied the leadership in opposing the Good Friday agreement – seemed unperturbed at the prospect of his party leader and Mr Adams meeting.

Sinn Féin officials insist the ball is now in Mr Trimble's court, while unionists will want to see more evidence of their conversion.

Mr Trimble is expected to move his defences. The next test will be whether he will agree to sit with Sinn Féin in the executive with the other parties. The process could still founder on this issue. One of Mr Trimble's key aides said yesterday the party would want to see "verifiable" disarmament by the IRA before Sinn Féin can take its seats.

The assembly reconvenes on September 14. The parties have to agree the areas of cross border co-operation by the end of October. The only other binding date is when the executive has to take over the governance of Northern Ireland in February.

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MUSIC LA JOLLA

California dream of a festival

Martin Hoyle enjoys chamber music at a little-known gathering

As a festival setting, La Jolla is a sybarite's dream. It has a golden climate, the startlingly blue Pacific, basking seals, and local wine: a combination denied to Edinburgh, Salzburg and Aix.

The La Jolla SummerFest, a chamber music festival at the end of August, is presented by the organisation that promotes five other concert series in La Jolla and downtown San Diego during the musical year. Orchestral concerts for the 1998-99 season include a

A cautious move has been made to dispel one's initial impression of La Jolla as the US equivalent of Torquay with less conventional fare

roll-call of the internationally established (Salonen, Jansons, Bell, Huang, Zimerman), while recitals and chamber music include Arcadi Volodos, Richard Goode, the Takacs and Vellinger quartets and Isserlis and Hough – not to mention the up-and-coming Freddy Kempf, the British favourite from the last Moscow Piano Competition.

Yet for all this, the festival is a shrinking violet as far as international awareness is concerned. However, a new joint directorship to raise its profile has been appointed: David Finckel, cellist of the Emerson Quartet, and his wife, the Taiwanese-born pianist Wu Han – both, incidentally, due to make their second Wigmore Hall appearance next month.

Their hands-on programming and very hands-on promoting underlines the festival's intimate, family feeling. A relatively small group of artists plays together, staying at local homes. This being America, the socialising is important. One concert was given in a private home belonging to the family behind Qualphon.

The small orchestral repertoire is now ignored in favour of chamber ensembles. Concerts are given in the Sherwood Auditorium, an adjunct of the Museum of Contemporary Art, where next January sees the largest collection of Francis Bacon's pope paintings so far exhibited together.

There are family concerts under the auspices of Bruce Adolphe, the composer-in-residence, workshops with young groups, and lunchtime discussions with guest speakers.

Among artists familiar to Europe were Menahem Pressler, Joseph Kalichstein, Cecile Licad and Alban Gerhardt. However, what immediately strikes the visitor is the number of talented young Taiwanese, Chinese and Korean Americans: a new generation, now settled in the New World, perpetuating the musicianship and discipline that has impressed Europe from eastern Asia in the past two decades; and a reminder to northern-Atlantic dwellers that California is part of the Pacific rim.

I particularly remember David Shifrin's full clarinet tone in Schumann and the Brahms Trio Op. 114 (with the festival directors); and the freshness and excitement of many of the younger players, hopeful signs for the future. Even Prokofiev's Overture on Hebrew Themes, which can sound like a musical tourist's eye-view of *Fiddler on the Roof* country, had a variety of dynamics, colour and emotional gear-changes lavished on it. The young Miami String Quartet, joined by Toby Hoffman and the very young and promising Taiwanese American Felix Fan, brought the same freshness to the Brahms Sextet Op. 36.

If the repertoire was dominated by the romantic, a cautious move has been made to dispel one's initial impression of La Jolla as the southern Californian equivalent of Torquay with less conventional fare. British preoccupations found an echo in the inclusion of Szymanowski, while Penderecki and Davidovsky (Synchronism No. 6 for piano and tape, with the veteran Gilbert Kalish) were gently insinuated into the line-up.

I caught a programme that included Takemitsu's *Rocking Mirror Daybreak* for two violins, played by its dedicatees, the sisters Ani and Ida Kavafian, whose firm attack added sinew to a line that might have been wispy and attenuated in other hands. Their playing, with Licad, of Moszkowski's Suite in G minor provided a cheerful surprise: forthright, lyrical, big-hearted romanticism and tongue-in-cheek high spirits from a composer who, as the artists pointed out, would have been dismayed to find himself remembered for salon pieces.

Peteris Vasks' third quartet was played by the Miami, whose cellist's introduction drew humorous parallels between the Latvian's mysticism and the Californian brand. The music's northern light illuminates vistas bleaker than those of English pastoralism; but in his folk echoes, and the mixture of distantly perceived vistas and claustral reflectiveness, is Vasks the Baltic Vaughan Williams?

David Finckel and Wu Han play at the Wigmore Hall on October 16.

Family affair: the festival's new joint directors are husband and wife team David Finckel and Wu Han — Christian Steiner

EDINBURGH US DRAMA

Silly O'Neill, brave McNally

The Oedipus complex becomes more complex than usual in Eugene O'Neill's play *More Stately Mansions*, Alastair Macaulay writes. Simon's wife and mother fight for power over him, then they side against him ... his mother is wifely, his wife maternal, and neither they nor he want what they get. Two corners of the triangle are forever opposing the third, with frequent changes of allegiance. As the play proceeds, these changes accelerate. In Act Three, there is about one volte-face per minute.

More Stately Mansions is described as an unfinished play. New York Theatre Workshop brought it to Edinburgh in a version finished and adapted by Karl Ragnar Gierow. Its problem, however, seems to be not a lack of ending but an excess thereof. The shape of the play is fairly obvious from the first, and grows only more so. More ridiculous, too.

I doubt any performance could save this twaddle, written in those palmy American days when psychoanalysis was just becoming, in Edwin Denby's words, a household remedy. Although here or there O'Neill has tacked on a few fig leaves of plot, mainly his central three characters just vent their feelings.

Still, O'Neill shows you at regular intervals why he is, with Tennessee Williams and David Mamet, one of America's three foremost playwrights. He never lacks audacity: his characters, however absurd, are heroic. Tennessee Williams' more audacious psychodramas are more poetic than this, but not more courageous.

The New York Theatre Workshop style, alas, is to ironise. The actors, under the direction of the Belgian-born director Ivo van Hove, comment on the play by means of artificial exaggeration. Now they pelt out speeches at breakneck speed, now they switch into ordinary tempo, now they shout. Tim Hopper and Jenny Bacon, as Simon and his wife Sara, supplement one scene with a prolonged nude acrobatic pas de deux, like those in Kenneth MacMillan's *Mayerling*, except that she gets to lift him too. Nothing could be sillier.

The mania of O'Neill's play is presented in inverted commas throughout. This is wise-guy acting of the most accomplished and revolting kind. Van Hove must take the blame. How many more vile examples of Director's Theatre must the festival make its audiences endure?

★

Sentimental, navel-gazing, naive – there is a reassuring predictability about gay plays, Antony Thorncroft writes. But they can also be gripping, uplifting and fun. Terence McNally's *Love! Valour! Compassion!*, which received its British premiere on the Bedlam Theatre on the Edinburgh Fringe, is definitely in the superior group.

The scenario has the familiarity of a Greek tragedy. A group of eight friends, artistic and successful, gather on successive holiday weekends at Gregory's house. They bitch and bicker; flirt and flounce; and generally carry on in the way every group of sophisticated gays has behaved on stage since the seminal *The Boys in the Band* decades ago.

But *Love!* has been graced with a superb seven-strong cast (Chris Pickles plays twins, the sardonic John and the HIV-ridden James), and inspired writing by McNally. There is even a trace of a storyline, with Greg, a choreographer, suffering creator's block as he attempts to complete a new ballet.

The characters may be caricatures – Arthur and Perry, an old married couple with 14 years of love itching in places; Buzz, also HIV positive and hiding his fears beneath an encyclopaedic knowledge of the Broadway musical; Bobby, Greg's much younger lover, beautiful in body and spirit and affectingly blind; Ramon, a slice of Puerto Rican hot stuff who John has brought along to cause waves; and James, from England and as camp as a bell tent: but they

The wit with which the gays hold reality at bay makes 'Love!' very funny

inhabit a real world, and eventually drown their individual lusts and ambitions in gay solidarity.

McNally keeps the action moving rapidly, with characters breaking off to keep the audience up to speed with the sub-plots of past romances and secret desires. Couples confront their own crises as the weekend party splits, and solos, and comes together again in an elegiac gavotte. The wit with which gays hold reality at bay makes *Love!* very funny, but there is no escaping the scourge of Aids, which gives McNally the chance to write with great compassion.

There is music, there is much skinny-dipping in the lake, there is a sentimental ending as the men put on their tutus once again to perform *Swan Lake* in yet another Aids benefit. Here they are finally sending up the sexuality which has so driven their lives, for good and ill. *Love!* is a snapshot of a small slice of a particular community at a certain time but it is wonderfully composed and sparkily written.

Chris Pickles catches the eye twice and is perhaps more effective as supercilious John, who accepts his warped character, than as childlike James who, in one of McNally's bold gestures towards the maudlin, has a last affecting fling with Buzz (an endearingly overwhelming Mike Goodenough). Andi Narsi is a credibly petulant Ramon and Nick Marlow makes the most of the too-good-to-be-true Bobby. But, to Stephen Henry's relaxed direction, all the cast act their socks off in the definitive gay play, at least for the 1990s.

SPONSORSHIP

Corporate backers look to the north

Antony Thorncroft assesses how attractive the Edinburgh Festival might be to businesses in the future

Let's hear it for the sponsors. That must certainly be the cry of Brian McMaster, director of the Edinburgh Festival, as the 51st jamboree ends this weekend. With the Fringe finishing a week earlier this year, and its audience quitting the city, together with a reduced subsidy, it is touch and go whether McMaster will be within his £6m budget. Thanks to sponsorship, which beat its target and topped a record £1.5m, the books should just about balance.

Companies, especially Scottish companies, have grown to love the festival. Businesses even enjoy the masochism of supporting the most avant-garde productions. This year Templeton Investment Management was prepared to invite its corporate guests to sit through Botho Strauss's new play, *Die Ahnlichen* – in German. Standard Life's guests got off comparatively lightly with Calderon's *Life is a Dream*.

The biggest single sponsor is the Bank of Scotland, which invests more than £200,000 in the event, with the money going on advertising and community works as well as productions. In particular it involved 60 local children in the Pacific North West Ballet's *Midsummer Night's Dream*.

Other regular backers are the Royal Bank of Scotland, Scottish

Sponsorship is also permeating the Fringe, which attracts a much larger, younger audience, although it offers fewer opportunities for corporate hospitality

and Newcastle, and BT, while Marks and Spencer has committed itself to the lecture programme, an increasingly important part of the festival. There is also help in kind, with Renault supplying ground transportation for many of the 2,000 visiting artistes, and KLM providing the flights.

The Edinburgh Festival stands to gain from Scottish devolution as more companies set up head offices in the city and strive to be accepted as part of the community. With subsidy unlikely to rise in the forseeable future, sponsorship will become steadily more important.

The hunt is now on for a backer prepared to stump up £1m to complete the transformation of the Tollbooth in the Royal Mile into the festival centre. This £7m conversion of Pugin's Victorian Gothic masterpiece, built in the 1840s as the assembly rooms of the Church of Scotland, into a festival club and ticket centre should be completed by July. Most of the money is in place, but for £1m your company can be linked to the centre – in name, venue opportunities and gratitude – for five years.

Sponsorship is also permeating the Fringe, which attracts a much larger, and younger, audience than the festival, although it offers fewer opportunities for corporate hospitality. This year the Gilded Balloon's programme was supported by Calder's, and the Assembly Rooms' programme by The Observer.

Anyone sponsoring the Fringe is taking a risk, given the unpredictable nature of the product, so it was odd that Calder's objected to a play called *Myra and Me* which incidentally involved Moors murderer Myra Hindley. Examples of sponsors influencing the choice of programme are very rare. In the event, there was a speedy transfer of the production from the Gilded Balloon to the Assembly Rooms. The Observer is obviously more liberal in its approach.

★

This week the Dulwich Picture Gallery unveiled its most ambitious exhibition for many years, the first retrospective devoted to the work of the 17th-century Dutch artist Pieter de Hooch, displaying 41 of his gem-like interiors.

Bringing it to Dulwich was only made possible by a stroke of good fortune, and a £35,000 sponsorship – which attracted a further £9,000 of government money under the Pairing Scheme – from the United Technologies Corporation of Hartford, Connecticut.

When the director of Dulwich, Desmond Shawe-Taylor approached the de Hooch expert, Dr Peter Sutton, who runs the Wadsworth Atheneum in Hartford, by chance Sutton was also planning a De Hooch exhibition. He also had a possible sponsor, United Technologies, which inhabits the next block in Hartford. The company was immediately keen and suggested to its British subsidiaries, Otis and Pratt & Whitney, that they might like to look after the display in the UK. They took the hint.

On December 24 Dulwich closes for an 18-month redevelopment which, when completed by May 2000, will leave the gallery looking even more like Soane's early 19th-century original, together with a much-needed café and educational centre.

INTERNATIONAL

Arts Guide

AMSTERDAM

CONCERTS
Concertgebouw
Tel: 31-20-675 4411
Los Angeles Philharmonic: conducted by Esa-Pekka Salonen in works by Adams, Mahler and Sibelius. With mezzo-soprano Lorraine Hunt; Sep 8

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Götterdämmerung: by Wagner. New staging by Pierre Audi, conducted by Hartmut Haenchen. Cast includes Heinz Kruse, Jeannine Altmeyer and Henk Smit; Sep 8

BEIJING

OPERA
The Forbidden City
www.turandot-on-site.com
Turandot: by Puccini. Conducted by Zubin Mehta in a staging by Zhang Yimou, seen previously in Florence. With the Maggio Musicale Fiorentino; Sep 5, 6, 7, 8, 9

BIRMINGHAM

CONCERTS
Symphony Hall
Tel: 44-121-212 3333
● Chicago Symphony Orchestra: conducted by Daniel Barenboim in works by Strauss, Berg and Tchaikovsky; Sep 5
● Czech Philharmonic: in a programme of works by Janácek, Beethoven and Dvorák; Sep 9

BRUSSELS

CONCERTS
Palais des Beaux Arts
● Chicago Symphony Orchestra: conducted by Daniel Barenboim in works by Berg and Mahler; Sep 7
● Chicago Symphony Orchestra: conducted by Daniel Barenboim in works by Wagner, Schoenberg and Tchaikovsky; Sep 8

DUSSELDORF

CONCERTS
Tonhalle
Los Angeles Philharmonic: conducted by Esa-Pekka Salonen in works by Copland, Sibelius and Stravinsky; Sep 9

EDINBURGH

OPERA
Edinburgh International Festival
Tel: 44-131-473 2000
www.go-edinburgh.co.uk
● Dalibor: by Smetana. New Scottish Opera production by David Pountney. With sets by Ralph Koltai and costumes by Sue Wilmington. The conductor is Richard Armstrong; Edinburgh Festival Theatre; Sep 5
● Libuše: by Smetana. Concert performance by the BBC Scottish Symphony Orchestra and the Edinburgh Festival Chorus, conducted by Oliver von Dohnányi; Sep 4

THEATRE
Edinburgh International Festival
Tel: 44-131-473 2000
www.go-edinburgh.co.uk
● More Stately Mansions: by Eugene O'Neill. Adapted by Karl Ragnar Gierow from O'Neill's unfinished manuscript. Ivo van Howe directs the New York Theatre Workshop; Royal Lyceum Theatre; Sep 4, 5
● Phèdre: by Racine. New Théâtre Vidy-Lausanne production, directed by Luc Bondy; King's Theatre; Sep 4, 5

FRANKFURT

OPERA
Oper Frankfurt
Tel: 49-69-21237 999
www.frankfurt-business.de/oper
La Traviata: by Verdi. In a staging by Axel Corti; Sep 4, 6

LONDON

CONCERTS
BBC Proms, Royal Albert Hall
Tel: 44-171-589 8212
● BBC Singers: conducted by Jane Glover in works by Britten, Kodály, Elgar, Szymanowski and Parry. With the Choristers of Guildford Cathedral; Sep 4
● Bournemouth Symphony Orchestra: conducted by Yakov Kreizberg in works by Glinka, Rachmaninov and Schmidt. With piano soloist Arkady Volodos; Sep 9
● Chicago Symphony Orchestra: conducted by Daniel Barenboim in works by Strauss, Berg and Tchaikovsky; Sep 4
● Czech Philharmonic: conducted by Charles Mackerras in works by Janáček and Mahler; Sep 7
● Czech Philharmonic: conducted by Libor Pešek in works by Dvořák, Szymanowski and Brahms. With violin soloist Raphael Oleg; Sep 8
● European Union Youth Orchestra: conducted by Vladimir Ashkenazy in works by Berg and Strauss. With soprano Barbara Bonney; Sep 5
● London Symphony Orchestra and Chorus: conducted by Colin Davis in works by Beethoven (arr. Colin Davis and David Matthews) and Tippett. With soloists including bass John Tomlinson; Sep 6

EXHIBITIONS
Hayward Gallery
Tel: 44-171-261 0127
www.hayward-gallery.org.uk
Bruce Nauman: spanning the career of the American artist, b.1941, this exhibition focuses on his relationship with language, and includes sound and video installations; to Sep 6

Tate Gallery
Tel: 44-171-887 8000
Patrick Heron: b.1920, Heron is one of the leading figures of 20th century British art. This display includes around 80 paintings, from the 1930s to the present; to Sep 6

LUCERNE

CONCERTS
International Festival of Music
Tel: 41-41-226 4400
www.LuceneMusic.ch/
● Amsterdam Baroque Orchestra: Ton Koopman conducts works by Mozart. With soprano Lisa Larsson, contralto Elisabeth von Magnus, tenor Paul Agnew and bass Klaus Mertens; Sep 6
● BBC Symphony Orchestra: Andrew Davis conducts works by Ravel, Mozart, Walton and Elgar. With pianist Richard Goode; Sep 7
● Leipzig Gewandhaus Orchestra: in works by Honegger and Bruckner. The conductor is Herbert Blomstedt; Sep 8
● Los Angeles Philharmonic: conducted by Esa-Pekka Salonen in works by Strauss and Bruckner. With soprano Gundula Janowitz; Sep 4
● Royal Concertgebouw Orchestra: conducted by Riccardo Chailly in works by Debussy and Varèse. With soprano Sarah Leonard; Sep 5

NEW YORK

EXHIBITION
Guggenheim Museum
Tel: 1-212-423 3500
www.guggenheim.org
Vilhelm Hammershoi (1864-1916): Danish Painter of Solitude and Light. Retrospective seen in Copenhagen and Paris last year, comprising 60 works by this relatively unknown contemporary of Munch. Includes portraits and landscapes as well as interiors, many of which depict the rooms of his Copenhagen home; to Sep 7

Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
Sir Edward Burne-Jones: first American exhibition devoted to the 19th-century British artist, comprising more than 200 works, including tapestries and jewellery as well as paintings; to Sep 6

SAN FRANCISCO

EXHIBITIONS
San Francisco Museum of Modern Art
www.sfmoma.org
Alexander Calder (1898-1976): around 250 works, among them some of the best examples of Calder's formally innovative sculpture. Alongside the mobiles and stabiles are selected paintings, drawings and jewellery; from Sep 4 to Dec 1

TOKYO

CONCERT
Suntory Hall
Tel: 81-3-3584 9999
● Japan Philharmonic Symphony Orchestra: conducted by Gianluigi Gelmetti in Rossini's Petite Messe Solennelle; Sep 6
● Japan Shinsei Symphony Orchestra: conducted by Antonello Allemandi in works by Rossini; Sep 5
● Tokyo Metropolitan Symphony Orchestra: conducted by Ken Takaseki in works by Reger and Beethoven; Sep 4

EXHIBITION
Museum of Contemporary Art
Tel: 81-3-5245 4111
At the End of the Century: One Hundred Years of Architecture; to Sep 6

TURIN

CONCERT
Lingotto Fiere
Los Angeles Philharmonic: conducted by Esa-Pekka Salonen in works by Schoenberg and Bruckner; Sep 7

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:
06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

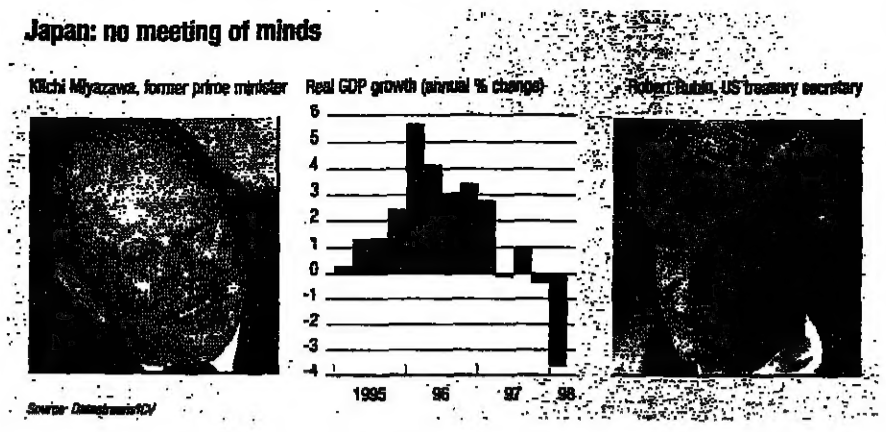
● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

COMMENT & ANALYSIS

Nothing up my sleeve

When Japan's finance minister meets his US counterpart, the scary thing is they may have nothing at all to talk about, say **Gillian Tett** and **Michiyo Nakamoto**



Japan's economy is in trouble and threatening market turmoil. A critical meeting takes place. The ageing Kiichi Miyazawa, Japan's finance minister, flies to San Francisco to see his US counterpart in the hope of salvaging something from the situation.

That was 1986. On that occasion, the meeting ended with the "Baker-Miyazawa initiative" to cut taxes and interest rates to boost Japanese demand. The quid pro quo was a joint initiative to stabilise the yen.

This time round, Mr Miyazawa, now even more aged, is meeting Robert Rubin, the US Treasury secretary, in the same city. The stakes are even higher. The big question for Japan and for global markets is whether Mr Miyazawa can pull off the same trick again.

The unnerving answer is: probably not. Japan, in its worst recession since the second world war, faces far worse problems than those of 1986. Mr Miyazawa's ability to calm US nerves is greatly diminished, mainly because of the political gridlock afflicting Japan's government. Not surprisingly, senior US officials are doubtful that any meaningful policy initiatives will emerge from the meeting.

Some diplomats fear the coming months could produce more mud-slinging than policy-fixing. As one senior Japanese financial official says: "If Wall Street crashes, who do you think they will blame? Somehow I suspect it will be us."

The Japanese have every reason to feel defensive. After all, three months ago Larry Summers, the deputy US Treasury secretary, visited Tokyo following the US's surprise intervention to prop up the yen, telling his hosts to act fast to boost the economy and clear up the banking mess. The US intervention, he explained, had been designed to create a "window of opportunity" for Japan to act.

Three months on, there is precious little evidence that Japan has taken that opportunity. The economic data are worse even than they were then: industrial production, for example, fell 9 per cent in the year to July. The Economic Planning Agency recently admitted the slump would probably continue for several months.

Yet the Liberal Democratic party has been paralysed by its defeat in July's Upper House election. The result has been a debilitating mix of encouraging rhetoric – and disappointingly slow reform.

Take the banking sector. Last month, the LDP produced two financial reform bills, one to make it easier for banks to sell bad loans from exposure to property and another to create a "bridge bank" to wind up the operations of failed banks. The government has also started some restructuring by encouraging the troubled Long Term Credit Bank to merge with Sumitomo Trust.

But since then, nothing has happened. The financial reform bills have not even been put before parliament because of a political row between the opposition and the LDP over Long Term Credit Bank. And a solution to that bank's problems have been delayed because of public outrage over the proposal to inject Y500bn ($3.6bn) of taxpayers' money into the troubled institution.

Nor on the fiscal side has Japan produced the clear policies that the markets, or the US, wanted to see. True, last month, Keizo Obuchi, the prime minister, unveiled Y4,000bn in "additional" income tax cuts, plus a host of other trillion-yen spending and corporate tax-cut measures.

But these dizzying sums contain crucial catches. It is still not clear, for example, whether the Y4,000bn "new" income tax cuts will be permanent or temporary. Mr Obuchi's only concrete pledge to date is that the top rate of income tax will fall from 65 per cent to 50 per cent, but he has implied that the lower rate will actually rise slightly next year.

The spending sums are even more opaque. What the "new" Y10,000bn might contain is completely unknown. More alarmingly, even the Y8,000bn already pledged to boost infrastructure may be a mirage. In July, for example, construction orders fell 14 per cent, year on year.

While this may reflect a timelag, it also suggests that some heavily indebted local governments are simply refusing to implement the central government's spending plans. "Local governments have very serious deficits and do not want more public works," says Sawako Takeuchi, a member of the government's Economic Strategy Council. "They cannot do any more."

So, when Mr Miyazawa meets Mr Rubin today, will he be able to offer anything at all? Some Japanese officials suspect he may provide more concrete details of tax cuts and that he may even announce a political compromise over LTCB. (Yesterday some opposition parties appeared to be tiptoeing towards a deal.)

Diehard optimists hope that the meeting might even repeat the 1986 experience, paving the way for a shift in policy.

Monetary policy offers one possibility. Until now, cuts in Japanese interest rates have been considered taboo since they would weaken the currency. But Japanese officials suspect that US opposition to a weaker yen is ebbing, given the scale of Japan's economic woes.

And if the US Federal Reserve reduces interest rates – perhaps because of a new financial crisis in Latin America – a Japanese cut would be politically easier. By coincidence, the Bank of Japan's policy board is due to meet a few days after Mr Miyazawa returns.

"The 1986 meeting took two months to produce results, so this may take time," argues one western diplomat. "Change never happens quickly here. What will drive change in Japan is market pressure, not US speeches."

But relying on market pressure may take too long given the parlous state of the global economy. Mr Miyazawa is under great pressure to defy his critics and earn his place in the financial history books by producing clear policies to pull Japan out of its slump. If he does not respond, his second trip to San Francisco could produce a rather gloomier result than his first.

LETTERS TO THE EDITOR

Hong Kong: a free market, though not free from manipulation

From Mr Giles Chance.

Sir, Regarding Hong Kong's credibility as a free market ("One country, two systems, big crisis", September 1) it is not clear yet whether direct government intervention, or stepping aside to allow economic contraction in support of the currency peg, is the better strategy overall.

Hong Kong's market has never been large enough not to be manipulated: large informational asymmetries between local tycoons and foreigners; government land sales; and control of the futures index by a small number of large foreign banks acting in concert are but three examples of market manipulation from the recent past.

And none of this has deterred portfolio or direct investment in the presence of a rapidly growing and stable China.

Meanwhile, it seems quite possible that China and Hong Kong between them have sufficient resources and nerve to see their intervention through.

We see the first signs of a shift in economic orthodoxy, in the light of collapses in south-east Asia and Russia, in the new-found advocacy of capital controls by Professor Paul Krugman of the Massachusetts Institute of Technology.

Observing the emergence of new economic theories to support the stable development of emerging markets will be one of the most interesting and important outcomes of the present debacle.

It seems likely that Hong Kong will maintain its role as the test bed for workable ways of marrying western capital with developing country needs, even if its overstated reputation as a bastion of perfectly free markets has been tarnished.

Giles Chance,
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Beijing,
China

A necessary safeguard

From Mr K. Y. Tsui.

Sir, Keith Wedmore (Letters, August 27) says committal proceedings in England before examining magistrates are not secret and the defence may ask for there to be no publicity.

The situation is more the other way around. While committal proceedings are open, media reporting is restricted by law to a number of permitted details such as the name of the court, personal particulars of the defendants and witnesses and the offences in the charges. The restrictions may, however, be lifted by the court on an application by the accused.

Reporting restrictions are there because committal proceedings are usually a very one-sided affair, with the prosecution presenting what it has got to convince the court that there is a prima facie case against the accused. If full publicity is allowed, it may prejudice the subsequent trial, particularly if the accused opts for the case to be heard by jury.

K. Y. Tsui,
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Delighted to be a subsidised passenger

From Mr Martin B. Murphy.

Sir, I find the view expressed by Paul Jones (Letters, August 25) regarding duty-free sales and ferry company profits rather selfish. His figures concerning the "outrageous prices" charged, inter alia, by the cross-Channel ferry companies are, from my own experience of prices charged by airlines compared with prices charged to members of ships' crews for duty-free wines, spirits etc, certainly correct.

However, these days I am a regular user of cross-Channel ferry services. As such, I have no objection whatsoever to the price of my ticket being subsidised by those less enlightened passengers who contribute to the profits of the ferry operators by making "duty-free" purchases!

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UK's national statistics better for rigorous quality control

From Mr Stephen Penneck.

Sir, John Kay's analysis of statistics ("Would I rather be Henry VIII?", September 2) describes some of the perennial problems of allowing for quality change when measuring inflation and economic growth. And he's right – it's not an easy job. But these problems are well known by the Office for National Statistics and tackled in the statistics we produce.

Mr Kay does not acknowledge the substantial adjustments ONS makes for quality improvements in compiling price indices. Details have been published in the Retail Price Index technical manual. Indeed, some experts claim that, across all items, consumer price indices tend to overcompensate for quality improvements and that, on balance, we underestimate, rather than overestimate, price change. The basket of goods and services priced in the RPI is reviewed annually so there is little difficulty with including new goods as they become important.

A considerable amount of care is given to quality adjustment. In order to simplify the problem we do not make direct comparisons between consumption patterns for periods far apart – between the cost of candles and light bulbs, for instance. Instead the price changes are estimated for consecutive periods from a fixed basket of goods and services appropriate to the periods being considered. So, to continue our example, candles and light bulbs were priced side by side, with appropriate weights, for several years. Changes in prices and volumes between periods more distantly separated by time are then obtained by cumulating the short-term aggregate movements – a process known as chaining. For the RPI the length of the chain is one year – for the producer price index and gross domestic product the chain is around five years.

Mr Kay raises real issues of concern for measuring inflation and growth, but he can be assured that the ONS works hard to take these factors into account.

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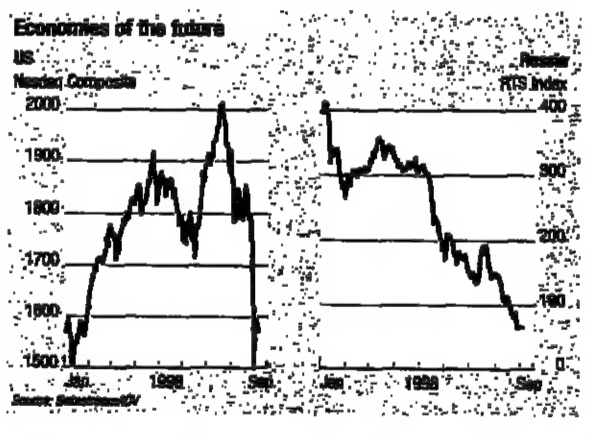
PERSONAL VIEW ALEXEI BAYER

Futurology and risk

There are distant but still disconcerting parallels between Russia and Wall Street



Why Russia? Why should an economy that accounts for around 0.5 per cent of US trade send Wall Street into a selling panic?

At first glance, it is a puzzle and has been chalked up to market over-reaction. Or to the negative impact of the Russian crisis on other emerging economies. Or to political jitters as government turmoil grips a nuclear superpower.

These forces did of course contribute to the fall in US stock prices. But there is a more direct parallel between the hapless Russian stock market – which has dropped to just 10 per cent of its peak value last October – and the mighty US one. The sad story of the rise and fall of Russian equities may teach an important lesson to US investors.

When in 1993 and 1994 Credit Suisse First Boston and other brokerage pioneers began offering Russian equities to their clients, they billed them as a highly speculative investment in an economy of the future. Russia was a great story: it had a nascent democracy, a vast underserved consumer market, a wealth of natural resources, a proven scientific and research establishment and a highly educated workforce. With market reforms under way, it was certain in time to catch up with the world's prosperous economies; investors who bought into Russian companies early on stood to reap very attractive returns along the way. Even today, all this might one day be true.

But financial markets are impatient. They factor into today's prices developments that lie far in the future. When in 1996 Boris Yeltsin, perceived in the west as the father of a democratic, capitalist Russia, moved into the lead in his re-election campaign, the path toward market reforms lay clear and the Russian stock market took off. A 100 per cent increase in 1996 was followed by an even more dramatic leap in early 1997. Share prices of natural resource, telecommunications and other blue-chip companies rocketed as a matter of course; even second and third-tier industrial companies saw intense investor interest. Never mind that the companies themselves were a mismanaged pile of rubble, or that the economy stubbornly refused to grow, or that the reform process became bogged down: investors were not buying the unappealing reality of the day but the country's bright future.

It would be considered a sacrilege in some circles to compare Russian stocks to Nasdaq shares. Nevertheless, the similarity between investors' valuations of America's high-tech shares and Russian stocks begs comparison. We have all heard how the internet, for example, will in the future be the main venue for retail sales, banking, telecommunications, information and entertainment. That is why the share prices of Yahoo!, AOL, Amazon.com and scores of other internet-related companies without dividends, profits or a proven track record have been pushed into the stratosphere during recent stock market rallies. Even now, despite this week's decline, they have stayed there, even though, without a leap of faith, their market capitalisation would be completely out of line with their size or economic significance in today's economy.

Just as in Russia, US investors are discounting developments far in the future to support very high present stock valuations

The valuation of internet stocks is an extreme case, but most high-tech, computer and related "new economy" shares are priced according to their expected future role. Even Microsoft is valued so highly by the market not for its accomplishments to date – undeniable though they are – but for its dominant position in an industry expected to be crucial for the economy of the future.

Of course, stock markets always reflect future expectations. The traditional way of looking at the price of a stock is as the discounted present value of the future dividend stream and other cashflows. But there is a difference between discounting concrete predictable events over a finite time frame – cyclical movements, demographic changes, macro or microeconomic trends – and a nebulous open-ended exercise in futurology.

As the great bull market of the 1990s gathered steam, US blue-chips have become increasingly caught up in a similar timewarp. While the European stock market rally this year has been based on tangible evidence of an accelerating economic recovery and expected medium-term benefits of monetary union, US blue chips are facing a very different set of economic fundamentals: a mature recovery, tight labour markets and a long period of historically high rates of profits growth.

As the near term became clouded, the market began to look further ahead. Long-term profit growth estimates have increased from around 12 per cent a year in the early 1990s to 14 per cent a year. Justification for such optimism, once again, is found in an economy of the future, where top US companies will be able to sell their products in a single global marketplace, benefiting from their superior market position, resources and brand names, while also using the global economy to keep down production costs.

Of course, there are huge differences between Russian companies and US high tech start-ups, to say nothing of established multinationals. A Wall Street freefall on the scale of a Russian debacle is not remotely likely: with no dividend payments and no real claim on assets by shareholders in Russia, there was no floor for Russian share prices once they started to slide. There is also the question of liquidity: at its peak, the Russian market had a total capitalisation of around $100bn, a sum that flows into equity mutual funds in the US in a few months.

Nevertheless, just as in Russia, US investors are relying on discounting developments far in the future to support very high present stock valuations. While the story that underlies both high-tech shares and blue chips may be very credible, the actual transition from the present to the future is uncertain in both cases.

In fact, as the Russian crisis rebounds back into Asia and sends shockwaves through Latin America and Eastern Europe, it becomes more and more likely that the emergence of a global economy may not be as seamless, but turn out to be an unpleasantly bumpy ride. The stock market behaviour over the past week suggests that US investors are starting to come to this conclusion.

The author is president of KAFAN FX Information Services, a consultancy.

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COMMENT & ANALYSIS

FINANCIAL TIMES

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Friday September 4 1998

Funding for the IMF

Latin American finance ministers are meeting with the International Monetary Fund to discuss growing turmoil in emerging markets. But if one of them needed to call on the IMF's assistance, the fund would not have the wherewithal to help. This is hardly desirable at a time of extreme turbulence in global markets. Action is urgently needed in Washington to bolster the fund's resources.

The IMF's heavy spending on support for ruined Asian economies has left its finances severely depleted. To assist Russia, it even had to summon up the long-dormant General Arrangements to Borrow (GAB), which can be called on only when the stability of the international monetary system is at risk.

Yet the US Congress has been balking at a Clinton administration request for the urgent release of $18bn to enable the fund to fight further contagion. And Russia's collapse has certainly made the task of overcoming Republican objections no easier.

The Senate will approve the IMF's capital increase. The House is less certain. Speaker Newt Gingrich has been highly critical of the IMF's role in Russia. This may just be political posturing – but the House could say no to more money.

Congress is rightly concerned about the risk of moral hazard resulting from IMF bail-outs for irresponsible investors. However, Russia's default has rather reduced this fear: investors there lost their shirts. The markets' stomach for risk has been shaken. The overriding danger now is not moral hazard, but global contagion.

Colombia this week became the first Latin American country to devalue, and Venezuela's currency is under enormous pressure from speculators. From its own reserves and emergency borrowing mechanism, the IMF could in theory bail out Venezuela. But the $25bn or so it could scrape together would not be enough to save Brazil, a much bigger fish, if pressure to devalue the real became unbearable.

The IMF can perform the role of international lender of last resort only imperfectly, and it cannot eliminate the confidence crises to which adjustable currency pegs are prone. Its funds are limited, and available only in tranches with conditions. This is laborious in an emergency.

But the IMF does have a vital role. It can help to smooth balance of payments adjustment and support distressed currencies. For the US to refuse the IMF finance at this juncture would send a disastrous signal to world markets. Mr Gingrich and his colleagues will not want to be responsible for a global financial collapse just before an election. They should approve the release of IMF funds now, and re-open a necessary debate on the IMF's performance at a later date.

Chaebol shuffle

The proposal by South Korea's five largest conglomerates, or *chaebol*, to combine troubled subsidiaries in seven industrial sectors suggests the country may at last be facing up to the urgent task of corporate restructuring. However, on the basis of the sketchy information available, it is unclear that the planned measures will go far or fast enough. They might even prove a big step in the wrong direction.

Korea's industrial structure has long been distorted by extensive duplication, caused by the *chaebol's* pell-mell diversification into identical businesses. The competitive costs were evident before the country's economic crisis. Since it erupted, weak domestic demand, rising excess capacity and the *chaebol's* growing debt service problems have made swift surgery imperative.

President Kim Dae-jung has urged the *chaebol* to rationalise by swapping assets, so as to specialise in areas of strength. However, their response is far less radical, envisaging consolidation through mergers of selected activities. Although some, such as semiconductors, have a reasonable competitive track record, others appear beyond commercial redemption. Given the *chaebol's* tribalistic rivalry, talks on merger terms may take months. Even if they succeed, Korean companies' ability to manage joint ventures remains unproven.

It may be that the plan is envisaged as a stepping stone towards a wider realignment. But Korea's economic plight allows little room for half-measures. A gloomier possibility is that the *chaebol* view the asset reshuffle not as a way to reduce exposure to troubled businesses, but to keep their fingers in as many industrial pies as possible.

The plan's most worrying aspect is its failure clearly to acknowledge the need to close or cut back any of the troubled businesses. Instead, there are hints that it will pave the way for new investment and job creation. Given the parlous financial state of Korean industry, its poor productivity record and widespread over-manning, that looks like self-delusion.

Korea's reluctance to contemplate large-scale redundancies deserves sympathy. Resistance among its notoriously militant trades unions remains strong, while the lack of state unemployment benefits poses threats of political and social unrest. For those reasons, any government aid for restructuring should be paid to displaced workers not to companies, as the *chaebol* want.

But far-reaching industrial adjustment remains indispensable to economic recovery. The government, the *chaebol* and the unions need to recognise that delaying the process can only increase the eventual pain.

Superbug wars

Anxiety about the spread of microbes resistant to antibiotics has been increasing fast. Next week chief medical officers from the European Union meet in Copenhagen to discuss the problem. And yesterday, the UK department of health issued guidelines for doctors, patients and the general public.

The gradual development of superbugs is, at one level, inevitable. The more antibiotics are used, the faster will microbes adapt by Darwinian selection to become resistant to them, infecting other patients and passing their resistance to other kinds of microbe. As the pharmaceutical industry's ability to develop new drugs has not kept pace, the prospects begin to look alarming.

In the UK, for example the incidence of a form of food poisoning resistant to antibiotics increased eightfold between 1992 and 1996. Worldwide, tuberculosis is once again starting to defy treatment.

In the longer term, the UK report suggests the dire possibility of a return to the dark ages in medicine: the loss of effective antibiotics could not only bring back chronic diseases, but make it impossible to carry out many operations such as transplants or joint replacements.

Yet even if the battle of the bugs cannot ultimately be won, mankind could greatly strengthen its armoury. The most obvious step would be to use antibiotics more sparingly, both among humans and in animal husbandry. Unnecessary or incorrect use merely gives the microbes a better chance of mutating into a resistant strain.

At present consumer pressures and doctors' complaisance lead to the frequent prescription of antibiotics for viral infections which they cannot cure, such as many sore throats and colds. For other complaints such as cystitis in women, the course of treatment is often twice as long as is necessary.

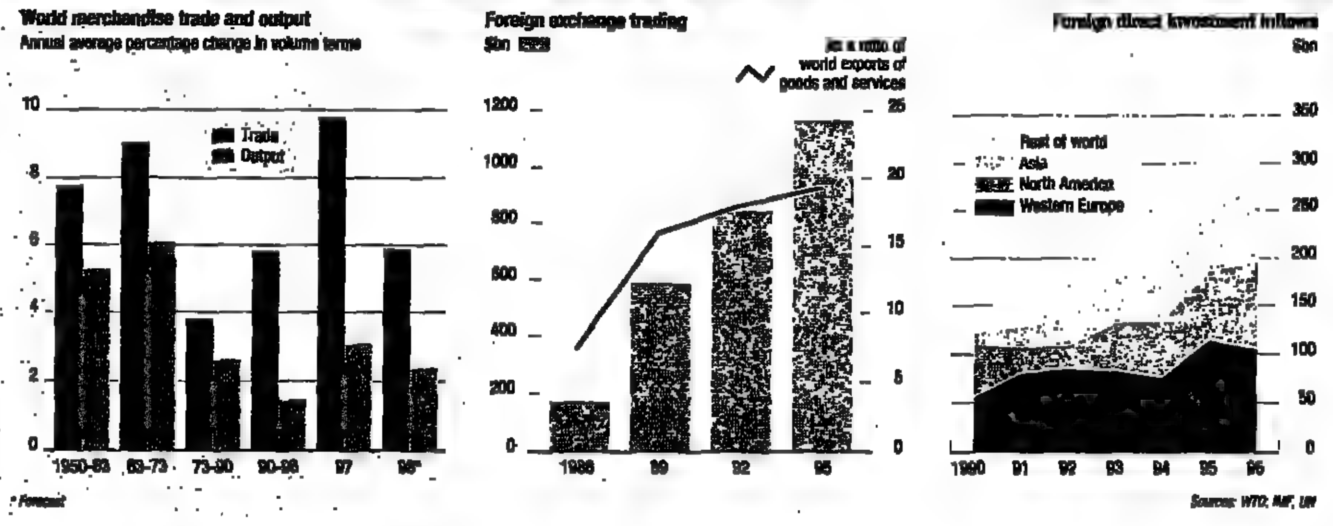
Then the routine use of certain antibiotics to promote growth in animals poses an increasing threat to humans. This is because resistance built up in animals may be transferred, making some bugs proof against medicines used by humans. Use among animals therefore needs to be curbed.

Meanwhile, improved prescription practices, better hygiene and the spread of knowledge among patients could make a big impact, as was shown in the remarkable fightback against resistant strains of TB in New York during the last six years.

Since bugs know no frontiers, the campaign must be international. And since it raises big questions about education and the priorities of the pharmaceuticals industry, it needs a higher political profile. Next week's conference could be a good start.

A backlash begins

'The free market system has failed and failed disastrously.' **Robert Chote** discusses the Malaysian prime minister's remarkable denunciation



Mahathir Mohamad, Malaysia's prime minister, can always be relied upon for entertainingly splenetic attacks on conventional economic wisdom. But recent turbulent events in world financial markets have meant his is no longer a lone voice. An anti-market backlash has begun.

Policymakers and economists are increasingly questioning whether it is appropriate to impose a single model of Anglo-Saxon capitalism in countries at very different stages of development. Debate is focusing in particular on whether countries should allow investment capital to flow unimpeded across their borders, as the IMF suggests they should.

Of course, no one is proposing the re-introduction of central planning, even (if Victor Chernomyrdin is to be believed) in Russia. But anti-market backlash is more than just one or two special cases and is not confined to countries with an existing predeliction for interventionist policies. Even in economies that have been exemplars of the liberal capitalist model – such as Hong Kong – policies are being implemented that make western free-market economists throw their hands up in horror.

The growing assertiveness of the anti-marketeers is typified by Dr Mahathir's imposition of capital controls on the currency, the ringgit. The conversion into foreign currency of ringgits held by non-residents is subject to the approval of the central bank. Trading in ringgit instruments by offshore banks is banned. Malaysian banks may not offer domestic credit facilities to non-resident banks or stockbrokers. All sellers of Malaysian securities held for less than a year have to retain their ringgit proceeds for another year.

In effect these measures have withdrawn the ringgit from the international financial system. As governments in emerging market countries across the globe become increasingly weary of the economic dislocation caused by footloose capital flows, investors are understandably nervous that others will follow suit.

"In this environment, you are going to see more policymakers considering capital controls", says Avinash Persaud, head of currency research at J.P. Morgan in London. "This will feed the risk aversion we are seeing in markets, because people will say: 'Here is a risk I can't quantify; one which is primarily political rather than economic.'"

This political dimension is evident in Malaysia. A day after imposing capital controls, Dr Mahathir sacked Anwar Ibrahim, his liberal finance minister and deputy. Together with Ahmad Mohamad Don, the central bank governor who resigned last week, Mr Anwar had reassured investors with his orthodox pro-market views and willingness to impose tough monetary and fiscal policies.

Given Dr Mahathir's long-standing distrust of the "jungle of ferocious beasts", as he described the global capital markets last year, an anti-market backlash there was always on the cards. Less predictable were events in Hong Kong, where the government last week tried to deter speculation against its currency peg by purchasing an estimated $15bn of shares on the Hong Kong stock market.

Banking giant HSBC Holdings says the Hong Kong Monetary Authority now holds almost 9 per cent of its equity. The HKMA refuses to disclose its stake in other Hang Seng stocks, but broker Indosuez W I Carr Securities estimates that it owns 7 per cent of Hongkong Telecom, 7 per cent of Hutchison Whampoa, 9 per cent of Cheung Kong (Holdings), and 11 per cent of Swire Pacific Holdings, which controls airline Cathay Pacific.

This partial nationalisation of the Hong Kong economy horrifies even some of its stoutest defenders. Milton Friedman, the Nobel prizewinner and doyen of free-market economists, once said that "to see how the free market really works, Hong Kong is the place to go". In an interview yesterday he described last week's share buying spree as "insane".

"Hong Kong spent years building up a well-deserved reputation for being a society in which markets are allowed to operate freely and the government stays out," Professor Friedman said. This helped provide confidence in the currency peg. "But once the Hong Kong government starts messing with the stock market all bets are off."

Leaving aside the question of ideological soundness, the monetary authority's tactics are questionable. As Shou-Kang Li, of Deutsche Bank in Hong Kong, argues: "Intervention has done little more than expose the government's pain threshold".

This can be dangerous when a government is attempting to defend a currency peg. As the collapse of the European exchange rate mechanism in 1992 and 1993 demonstrated, speculators smell blood when governments signal that they are unwilling to pay the cost to the real economy of defending an exchange rate peg. As a currency board, the Hong Kong dollar peg is much stronger than those of the ERM. But in the end the same principle applies.

Whatever the economic justification, one factor which recent events in Malaysia and Hong Kong have in common is a deep-seated frustration and annoyance among policymakers at the aggressive tactics of highly leveraged hedge funds.

In Hong Kong hedge funds –

'You are going to see more policymakers considering capital controls'

reportedly led by a certain George Soros – have profited by borrowing shares and selling them on the assumption that their price will fall before they have to be returned. This fall in share prices is then engineered by selling Hong Kong dollars, which under the currency board system produces an automatic rise in interest rates.

As part of the anti-market backlash, hedge funds are being demonised in much the same way that Britain's government blamed the "gnomes of Zurich" for its balance of payments crises in the 1960s.

Hedge funds can indeed cause disruption and contributed significantly to Monday's plunge on Wall Street. But they are small in comparison to other players and rarely prompt other investors to follow their lead.

Nonetheless, the attacks on them – and the way in which these attacks have gone hand in hand with wider market intervention – show how far the debate about the wisdom of unimpeded capital flows has moved since 1996, when the former UK chancellor Kenneth Clarke proposed that the IMF should amend its articles of agreement to encourage the liberalisation of capital flows. He also argued that the institution should have formal jurisdiction over them.

The IMF was all for this idea, although in the light of the Asian financial crisis last year it began talking about the importance of "orderly" liberalisation, emphasising that countries should not be forced to abandon capital controls until their domestic financial systems were ready to cope. Following Malaysia's move the Fund is likely to find itself much more on the defensive when its annual meeting gets under way early next month.

The debate has become more highly charged as "respectable" economic opinion has swung behind the case for capital controls. Most recently Paul Krugman, prolific professor at the Massachusetts Institute of Technology, has joined the chorus. Writing in Fortune magazine he argued that the failure of the IMF's Plan A in the crisis economies necessitated the adoption of Plan B: exchange controls.

Exchange controls require exporters to sell foreign currency earnings to the government at a fixed exchange rate, at which that currency is then sold for approved payments to foreigners – normally basic imports and debt service. Other foreign exchange transactions may be illegal or forced into a parallel market. Either way this means that the country can reduce domestic interest rates without worrying about a plunge in the currency. China and India have followed this path and been hurt much less by the market turmoil than others.

Malaysia exploited this room for manoeuvre yesterday, cutting interest rates following its first recession in 17 years.

Prof Krugman welcomed Malaysia's decision to take his advice, but warned that capital controls could only be a stopgap measure to give breathing space for reform. He noted that the economic distortions created by the controls would grow over time. The controls should not be used to defend an overvalued currency or "to prove points about the soundness of the pre-crisis economy, or about the wickedness of hedge funds, or anything else".

The IMF, not surprisingly, has been less enthusiastic about the Malaysian action. But if it is to stop many other countries following Malaysia's example inappropriately, it will have to argue the case for liberalised capital with greater vigour.

And there is a strong case to argue. The theoretical rationale for free capital flows is more ambiguous than that for free trade in goods and services, but similar principles apply. Liberalisation allows capital to flow to where it can be used most effectively, promoting increased investment, faster economic growth and better standards of living in recipient countries. For investors in capital exporting nations it offers higher returns and diversification of risks.

Recent events have exposed the dangers of capital flows, especially in countries with adjustable-peg exchange rates and weak financial systems. But this hardly seems to justify a broader loss of faith in free markets: after all, current account convertibility seemed just as risky in the 1940s as free flows of capital do now. Yet in the years that followed it proved an engine for unprecedented world growth. Handled carefully, capital-account convertibility could do the same now.

OBSERVER

Inattention to detail

Economics professor Yoko Sasanami was a surprise choice to head the committee charged with judging which Japanese banks should be bailed out with public funds. It is rare for a woman – let alone a woman old enough to be a grandmother with no experience of banking – to get such a stellar position in Japan's financial firmament.

At the time, government officials argued that Sasanami's odd pedigree was a plus: unlike most middle-aged male bankers, she was untainted by even a hint of financial scandal.

But the official line appears to have backfired. As the row over Japanese banks' bad loans – and the use of public funds to rescue them – rolls on, Sasanami was this week hauled before parliament to give her view on the matter.

Did she understand, she was asked, the financial plight of the banks she had handed Y1,800bn to this spring? What about Long Term Credit Bank, for example, and the whopping injection of public money it received?

Unabashed, she cheerfully admitted that her committee's knowledge of banking details was a bit thin: apparently they didn't feel the need to collect much information on individual banks and their creditworthiness. After all, she said, they were keeping the big picture firmly in their sights and focusing on the "entire financial system".

No point in cluttering the place with a lot of messy detail.

Shelf life

Safeway's "Superior Service" customer care programme isn't checking out with the workers. A dozen employees in Martinez, California, have filed formal grievances.

The trouble is that the "smile and make eye-contact" rule has caused some shoppers to mistake friendliness with flirting. One woman worker claims she hid in the back room from shoppers who harassed her and followed her to the car park. Female employees reckon they should be left to decide which men they smile at and open doors for.

The policy – which also tells staff to anticipate shoppers' needs, fetch items, suggest purchases and thank them by name when they pay by credit card or cheque – isn't new. But Safeway has stepped up the pressure this year, using undercover shoppers and threatening disciplinary action and "re-education". The staff union has complained to the National Labour Relations Board that the whole thing was illegally imposed.

Perhaps the trouble is that decades of frosty service have left the great American shopper unable to cope with friendly, helpful supermarkets. Maybe everyone needs re-educating.

Wizard in Oz

Sergei Kiriyenko is keeping well away from Moscow's malaise, less than two weeks after his short reign as Russian prime minister came to an abrupt end.

Yesterday, he was sightseeing in Sydney with family and friends, after spending Wednesday night on a dinner cruise in the harbour. Asked about events back home, he said no one in the Kremlin could take the tough decisions.

Next stop is scuba-diving off Queensland before going on to rugged New Zealand. One of the revelling Russians said Kiriyenko had chosen Down Under for a holiday because it was "about as far away from Russia as he could possibly go".

Doesn't sound like a tough decision.

Sing out

The campaign to make Puerto Rico the 51st state of the US is off to a toe-tapping start, with the song "Cup of Life" making rallies go with a swing. Shame that no one thought to ask permission to use it.

Puerto Rican Ricky Martin sang the song before the World Cup Final in Paris in July – a game in which neither Puerto Rico nor the US were involved – and it has since been adopted by campaigners for US statehood in a December plebiscite. But Pedro Rossello, Puerto Rico's pro-statehood governor, says Warner-Chapell Music has told him to stop using the song without permission; song writer Robi Rosa, co-owner of the rights, has said he is unhappy with Rossello using the song in the campaign.

The governor can't see the problem. "If you buy a disc, you have a right to play it," he argues.

Try telling that to the international music industry.

The Big Sleep

Tough day yesterday for Joe Lockhart, on his first foreign trip as White House press secretary designate. The man who steps into Mike McCurry's big shoes this autumn over-slept and missed the early morning departure of Air Force One from Moscow to Belfast.

The slumbering Lockhart stirred just in time to catch the White House support plane and, during the flight to Northern Ireland, had time to prepare a contrite statement. He told reporters: "I take responsibility for my own actions. I deeply regret it. I'm dealing with the people I hurt the most. I'll have nothing further to say about it."

Now doesn't that sound familiar?

The Financial Times

50 years ago

Big French Crisis
Paris, Sept 3. After a three-day effort, Popular Republican leader M. Robert Schuman to-day gave up his attempt to form a new French Government to replace that led by Radical M. Andre Marie. "I have not found the co-operation necessary for fulfilling the conditions of effective government," he declared. To-night President Vincent Auriol renewed his search for a new Premier, and in an increasingly grave political situation, conferred for an hour with Socialist leader M. Leon Blum. With the crisis still unresolved, France having been without a Government for seven days, there was increasing talk to-day of dissolving the National Assembly and of holding general elections. The final blow to M. Schuman's efforts came when he offered without the key post of Minister of the Interior to M. Francois Mitterand.

Dutch Empire Revision
Amsterdam, Sept. 3. The First Chamber has passed, with 37 to 11 votes, the Bill providing for revision of the Dutch constitution. The Bill, which now becomes law, is for a new political structure of the Dutch Empire.

FINANCIAL TIMES
FRIDAY SEPTEMBER 4 1998

THE LEX COLUMN

Conglomerate pile-up

Not so much a big bang as a big smokescreen. The mergers announced yesterday by South Korea's *chaebol* may, eventually, lump some similar businesses together. But the drawbacks are well illustrated by the proposal to merge Hyundai Electronics with LG Semicon. Even if the deal is consummated, it does not amount to a refocusing of each conglomerate's activity. Nor is it clear who would control the new amalgam and so bear responsibility for the crucial cutting of capacity.

The trouble with the joint venture approach is that it leaves the *chaebol* with their fingers in the same number of pies. It would be better for each to play to its strengths, using asset swaps to consolidate leadership in a narrower range of businesses and to withdraw from others. On this basis it would have been far healthier to see LG hand its semiconductor business to industry leader Samsung, Hyundai pass petrochemicals to LG and Samsung transfer cars to Hyundai. Evidence is sorely needed that the *chaebol* are willing to go in for empire trimming.

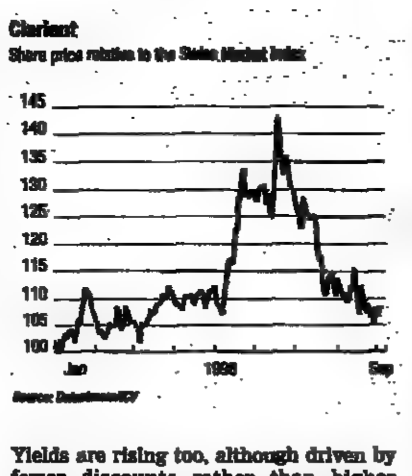
But surely putting numbers two and three together in semiconductors has some merit? Only if the stronger management team – hard to identify in a joint venture – is able to close plant. So far that approach has been stalled by labour protests. A further risk is that the new entity, with debts estimated at $12bn, remains too big for its banks to discipline and that losses mount as it tries to muddle through. Even where ownership and control issues seem solved, as in Hyundai Oil's takeover of Hanwha Energy, foreign investors must be convinced capacity is being cut before throwing in more money.

US airlines

America's airlines are having a torrid summer. Since mid-July, the six big carriers' shares have tumbled by a third or more, twice the decline of the stock market. Weakness in Asia, worries about slower growth at home and a bitter pilots' strike at Northwest Airlines are behind the rout.

At first sight, this looks overdone. Load factors actually ticked up to a very healthy 75 per cent in July and August.

Clariant
Share price relative to the Swiss Market Index



Source: Datastream/ICV

Yields are rising too, although driven by fewer discounts rather than higher prices. Most analysts still think the industry will match or beat last year's record net profits of $4.5bn. Admittedly, 1999 earnings are expected to be only flat, but price/earnings ratios of six to nine times look ridiculously low, even for such a cyclical sector.

Clearly, investors still mistrust the airlines in a downturn. They may have a point. Capacity growth is expected to creep back above long-term traffic growth of 8 per cent over the next two years. The Northwest strike shows rising labour costs are back on the agenda. It may even slow consolidation. With daily losses of $10m and net debt (including leases) of twice its $2.7bn market capitalisation, can Northwest still afford $600m for a stake in Continental? Most importantly, if the US slowdown turns into a recession, earnings will tumble and today's valuations will no longer look as silly. For now, caution looks sensible.

Clariant

The euphoria surrounding Clariant is over. Earlier this year, it seemed to offer investors the dream ticket of growth in speciality chemicals and a good restructuring story. But the Asia effect is finally taking its toll. Given the state of its markets and recent bad news from Ciba Speciality Chemicals, Clariant's own half-year numbers looked robust. The absorption of the Hoechst business is on track and margins are rising. Clariant's three-year cost reduction programme should continue to underpin earnings.

The question is how much of those savings will have to be passed on to customers through lower prices. Analysts had hoped Clariant could hang on to at least half of them. That now looks overly optimistic, given that the company expects pricing pressure to continue into 1999. Furthermore, it does not look as though there will be much support to earnings from turnover growth, as the impact from the Asia crisis feeds through into the European and US economies. Throw in some pain from a strengthened Swiss franc, and the company's cautious tone is justified. Pledges of double-digit net income growth for 1998 are hardly exciting when some forecasts have been as high as 20 per cent.

The share price fall means the company has lost much of its premium to European rivals. This might seem harsh, but there is still too much uncertainty surrounding its main markets for investors to be tempted back in yet.

Hitachi

Rarely can a company have been fighting on so many fronts. Hitachi, facing its first net losses, has been brought low by a crushing combination of Japan's problems and the global collapse in semiconductor and electronics prices. The latter is the real horror and the surprise is that Hitachi and its peers have not revealed the pain sooner. One concern is that Hitachi's restructuring does not go far enough. Another is that its efforts to ease the industry's overcapacity will not be matched by rivals. Hitachi is closing a semiconductor assembly plant in the US, Siemens has offered up its sacrificial lamb, but other industry leaders have preferred to take production "holidays" rather than close plant. No closures seem to be expected from the planned merger of Hyundai Electronics and LG Semicon, for instance. The industry is unlikely to be hailed out by strong demand any time soon, so further bad news looks inevitable.

Against this worrying background, Hitachi's plans to cut 4,000 jobs, only 6 per cent of its workforce – though understandable from a political perspective – could well prove too timid.

Clinton urges further moves in N Ireland peace process

By Stephen Fidler and John Murray Brown in Belfast

The peace process in Northern Ireland received another boost yesterday as US president Bill Clinton used a historic visit to the province to urge its parties to seize the opportunity for further substantial progress.

Mr Clinton said recent achievements after three decades of bloodshed had been "a magic thing to see unfold".

"America is with you. The entire world is with you. May God be with you and give you strength for the good work ahead," Mr Clinton said on his second visit to the province in three years.

His visit follows an intense diplomatic effort to restore public confidence in the peace process after the Omagh bomb which killed 28 people and injured more than 200.

In an encouraging sign yesterday, unionist officials said that David Trimble, Northern Ireland's chief minister, was likely to agree to face-to-face contact with Gerry Adams, the Sinn Féin president, as early as next week. A meeting of all the party leaders is planned for Monday.

The meeting would follow Mr Adams's statement this week that "violence must be a thing of the past" and Sinn Féin's appointment of its chief negotiator, Martin McGuinness, as a liaison with the IRA over arms decommissioning.

Unionist politicians pointed out such a meeting would be only the first step in the process of reconciliation. Mr Trimble's aides say his Ulster Unionist party is still looking for "verifiable" progress on IRA disarmament before it would take its seat with Sinn Féin in any executive to run Northern Ireland.

In the first of two speeches scheduled for yesterday, Mr Clinton praised "the words and actions of your leaders this week and their willingness to meet" as "hopeful reflections of the spirit of courage and reconciliation that must embrace all the citizens".

He arrived in Northern Ireland from Moscow yesterday morning, meeting representatives of all the main parties in the assembly at Stormont Castle. Mr Clinton spoke at length to Mr Trimble and spent up to 15 minutes with Mr Adams. US officials said Mr Clinton congratulated Mr Adams for his statement this week.

Mike McCurry, White House spokesman, said Tony Blair, UK prime minister, asked Mr Clinton to act to choke off any sources of finance in the US "for fringe elements who are not part of the peace process".

"Obviously, the breakaway splinter factions of the IRA do have some support and we agreed that if we can identify and locate and isolate and eradicate those sources of support in the United States, we would obviously want to do that," he said.

Mr Clinton's visit was met with less euphoria than when he last visited the province in 1995. But he pledged to help small businesses and back further trade and investment.

Dancing to the Clinton tune, Page 8; Observer, Page 11

Korean groups plan mergers in wake of government call

By John Burton in Seoul

South Korea's top five conglomerates, or chaebol, yesterday launched a series of industrial mergers in response to government demands to consolidate their weakest businesses.

The unprecedented restructuring across seven sectors comes as South Korea struggles with its worst slump since the 1950s.

The most significant deal was a proposed merger between Hyundai Electronics and LG Semicon, the lossmaking chip producers, although further talks remain on equity stakes in the venture.

The new company would rival Korea's Samsung Electronics, the world's biggest producer of memory chips.

The merger would probably lead to the cancellation of one of the two chip plants that Hyundai and LG were planning to build in the UK.

Hyundai's plant in Scotland has already been indefinitely postponed, while construction of the LG facility in Wales has been delayed until next year because of a drop in global prices for memory chips.

Analysts were cautious whether the restructuring would improve Korea's competitiveness as details were sketchy for most of the deals, which might take months to conclude.

"We know nothing about cuts in excess production capacity, which is Korea's central problem," said Richard Samuelson, branch manager for Warburg Dillon Reed in Seoul.

Hyundai and Samsung will merge their troubled petrochemicals units, while marginal chaebol businesses in aerospace, oil refining, power generation equipment, ship engines and rolling stock will also be consolidated.

The Federation for Korean Industries, which represents big business, said the deals would cut Won30,000bn ($15bn) in overlapping investments over the next five years, reduce production costs by 10 per cent, and raise export prices by 10 per cent because of less competition among the groups.

The chaebol also hope to attract up to $10bn from foreign investors over the next year to support the new ventures.

Analysts said that a number of issues needed to be solved for the mergers to proceed, including the sharing of high debt burdens. Management of the new companies might also prove difficult because of the strong corporate cultures and traditional fierce competition among the chaebol.

The chaebol have asked the government to provide financial aid for the restructuring, including ordering banks to write off debts and convert loans into equity stakes.

Another round of consolidation is expected in the Korean car industry, which is also suffering from severe over-capacity, once the fate of the bankrupt Kia Motors is decided. The international auction of Kia was cancelled this week because of low bids and demands for debt write-offs that creditor banks rejected.

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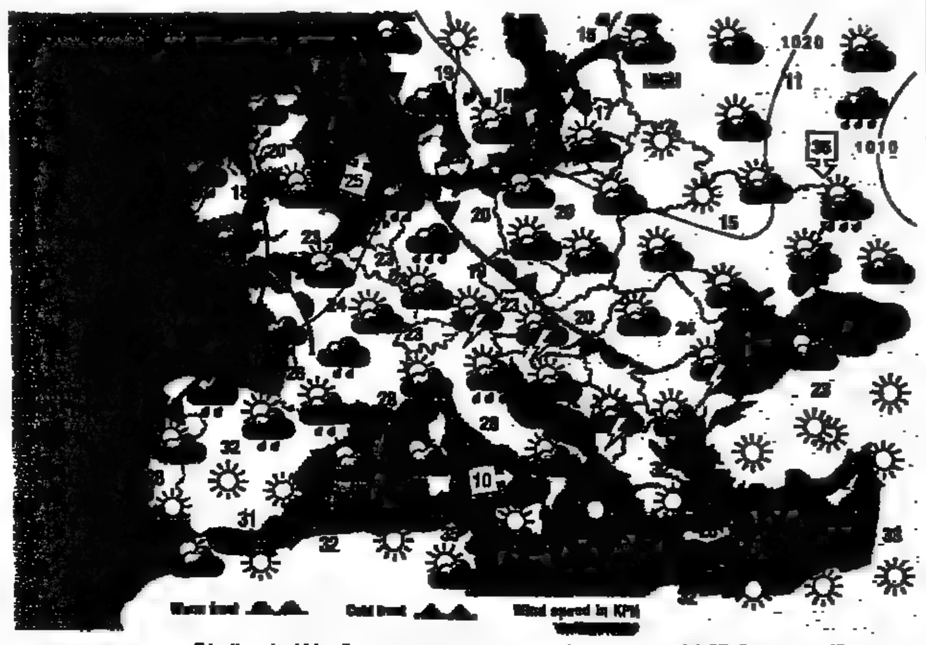
Big projects such as the Eurofighter, above, have helped give British Aerospace a $36bn order book. John Weston profile, Page 20

FT WEATHER GUIDE

Europe today
South-west Scandinavia will have some rain but elsewhere it will stay dry. Rain in central Europ may turn thundery before clearing but western Europe will then become wet. The Iberian Peninsula will have light rain in the north-west and showers elsewhere in the north, but other areas will be dry and sunny. The Mediterranean will be warm and mostly sunny but there will be heavy showers in the Balkans and in northern Italy and Greece, some thundery.

Five-day forecast
Scandinavia will continue mostly dry but there will be outbreaks of rain in the south. North-west Europe will become wet and windy. Rain in western Europe will move into central and eastern regions over the weekend and will be thundery in places. The Mediterranean will continue warm and sunny but there will be showers in the Adriatic.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	42
Accra	Fair	28
Algiers	Sun	32
Amsterdam	Cloudy	21
Athens	Sun	32
Atlanta	Thunder	30
B. Aires	Fair	16
B.ham	Shower	20
Bangkok	Thunder	32
Barcelona	Fair	29
Beijing	Fair	30
Belfast	Cloudy	18
Belgrade	Shower	26
Berlin	Rain	20
Bermuda	Thunder	31
Bogota	Thunder	18
Bombay	Thunder	33
Brussels	Fair	23
Budapest	Thunder	20
C.hagen	Rain	20
Cairo	Sun	32
Caracas	Fair	32
Cardiff	Rain	18
Casablanca	Fair	25
Chicago	Sun	29
Cologne	Fair	23
Dakar	Fair	31
Dallas	Sun	39
Delhi	[illegible]	30
Dubai	[illegible]	43
Dublin	Rain	18
Dubrovnik	Thunder	28
Edinburgh	Drzzl	18
Faro	Sun	27
Frankfurt	Shower	22
Geneva	Fair	23
Gibraltar	Sun	31
Glasgow	Fair	20
Hamburg	Shower	19
Helsinki	Sun	15
Hong Kong	Fair	31
Honolulu	Fair	32
Istanbul	Fair	27
Jakarta	Fair	33
Jersey	Shower	20
Johannesburg	Fair	23
Karachi	Sun	38
Kuwait	Sun	44
L. Angeles	Thunder	[illegible]
Las Palmas	Sun	29
Lima	Cloudy	20
Lisbon	Fair	28
London	Fair	23
Lux.bourg	Fair	[illegible]
Lyon	Fair	25
Madeira	Fair	27
Madrid	Fair	32
Majorca	Fair	[illegible]
Malta	Sun	30
Manchester	Shower	21
Manila	Thunder	33
Melbourne	Drzzl	14
Mexico City	Cloudy	29
Miami	Thunder	34
Milan	Shower	27
Montreal	Shower	23
Moscow	Fair	11
Munich	Fair	22
Nairobi	Fair	25
Naples	Fair	31
Nassau	Thunder	33
New York	Fair	28
Nice	Fair	28
Nicosia	Sun	32
Oslo	Fair	19
Paris	Rain	24
Perth	Fair	16
Prague	Shower	19
Rangoon	Fair	[illegible]
Reykjavik	Drzzl	[illegible]
Rio	Fair	28
Rome	Shower	28
S. Frsco	Fair	27
Seoul	Fair	27
Singapore	Thunder	32
Stockholm	Fair	18
Strasbourg	Fair	23
Sydney	Thunder	[illegible]
Tangier	Sun	29
Tel Aviv	Sun	30
Tokyo	Shower	27
Toronto	Fair	25
Vancouver	Sun	23
Venice	Thunder	28
Vienna	Rain	18
Warsaw	Fair	20
Washington	Shower	30
Wellington	Fair	12
Winnipeg	Fair	25
Zurich	Fair	22

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FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

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MARKET STATISTICS

JAPAN'S BIGGEST ELECTRONICS COMPANY TO CUT JOBS AND EXECUTIVE PAY AND WITHDRAW FROM UNPROFITABLE BUSINESSES

Hitachi faces first net loss in 50 years

By Alexandra Harney in Tokyo

Shares in Hitachi, Japan's biggest electronics company, tumbled 7 per cent yesterday after the group warned it would suffer its worst financial performance for more than 50 years.

The group also announced a sweeping restructuring, including job losses, executive pay cuts and the withdrawal from unprofitable businesses.

Hitachi forecast its first-ever net losses of Y250bn ($1.78bn) in the year to next March, blaming lower sales resulting from the collapse in semiconductor and electronics prices, as well as extraordinary losses from restructuring costs and devaluation of stock holdings.

The revised forecast compares with the company's estimate in May that this year's profits would reach Y40bn. Losses for the first six months are expected to be Y180bn, on turnover of Y3,890bn.

Earlier this week, Hitachi announced it would close a semiconductor assembly plant in the US and merge Hitachi Semiconductor and Hitachi Micro Systems, its two US semiconductor companies. The group has more than 60 subsidiaries in Japan and overseas.

The restructuring announced yesterday would reorganise management and production in nearly every division. The group aims to cut costs by Y140bn by March 2000 and return its consumer electronics and semiconductor operations to profit in the next two years.

Hitachi would also cut 4,000 jobs, or 6 per cent of its workforce, this year. Executive payrolls would be slashed an estimated 40 per cent, and capital expenditure for this year would be suspended. The group also said it would not pay an interim dividend.

"There is not enough work for the employees at our head offices, particularly in power systems, consumer electronics and semiconductors divisions," said Yoshiki Yagi, chief financial officer.

The information and electronics division was expected to account for between Y70bn and Y80bn of this year's losses. The group also expected to record Y2bn in losses from its consumer electronics division. Sales would be down 6 per cent, from Y8,417bn to Y7,940bn.

Tsutomu Kanai, Hitachi president, said: "Prices fell rapidly across the market. The last four to five years, conditions in the market have become much more difficult ...we delayed too long in our response to the increased competition."

Mr Kanai said the group planned to continue its previous efforts to raise sales and trim costs, and focus on developing information technology products. These efforts could include withdrawal from certain markets, as well as mergers and tie-ups with other companies, he said.

Shares in Hitachi have plunged more than 20 per cent since the beginning of August and yesterday closed down 7 per cent at Y706.

Lex, Page 12

Russian contagion spreads to investment banks' core activities

Bond issues, syndicated loans and IPOs hit by turmoil, say **William Lewis** and **Edward Luce**

International banks and other financial groups have reported losses suffered in Russia of almost $9bn in recent days. But much worse could be in store as the knock-on effect of Russia's devaluation and other emerging market turmoil looks likely to dent investment bank revenues severely until the end of the year.

Even the most developed western markets have already seen sharply reduced activity in the most profitable areas for banks. "We're going to see many fewer bond issues, fewer syndicated loans and fewer IPOs between now and the end of the year," said John Leonard, an analyst at Salomon Smith Barney. "This will really have an impact on margins."

Already margins have been dented by trading losses in Russia. Among the worst hit are Salomon Smith Barney, which reported a net loss of $150m in July and August, and Chase Manhattan, which came close to making a loss from its trading activities in August.

Bankers Trust, the seventh largest bank holding company in the US, was one of the few to warn of the likely impact of the turbulence in global markets on other core investment banking areas.

While BT's investment banking operations appear to have been particularly badly hit because of its traditional focus on high yield bonds and leveraged lending, it appears to be far from alone in experiencing a slowdown.

Data provided by Securities Data Company show that US common stock trading volumes have plummeted in July and worsened in August. Total stock volumes, comprising initial public offerings and secondary offerings, were $9.8bn in July and $2.5bn in August. This compares with $17.6bn in June. In the last week of August volumes reached just $26.6m.

Similarly high yield debt volumes have also suffered. August saw volume of $2.7bn, compared with $15bn in July, and $21bn in April. Donaldson, Lufkin & Jenrette was Wall Street's leading manager in this product area last year, and earlier this week it warned that it had made just $40m of pre-tax income so far in the third quarter.

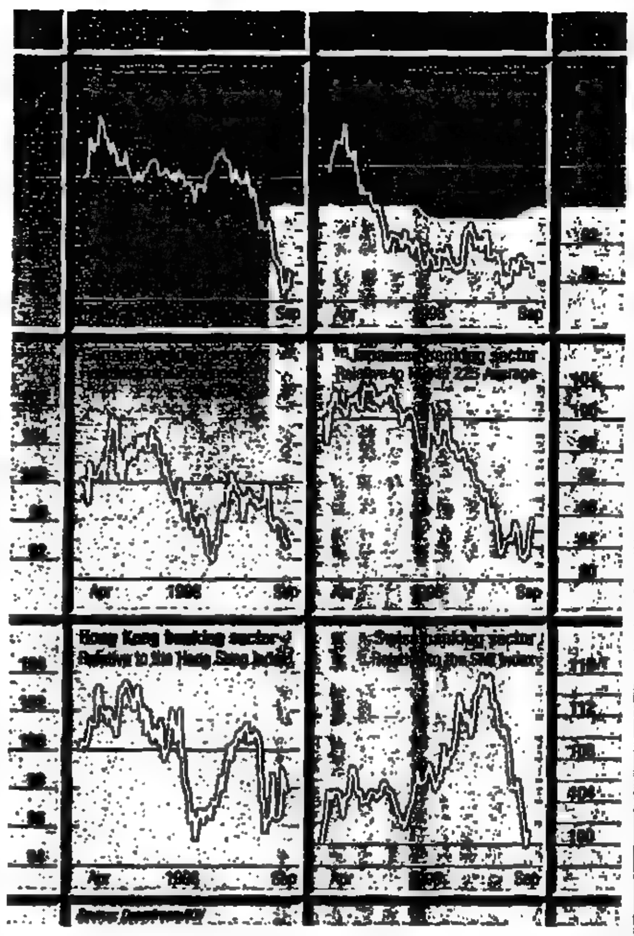
"The volatility is impacting the IPO market especially," says Charles Rauch, an analyst in Standard & Poor's financial institutions group.

Mergers and acquisitions, one of the highest margin businesses for investment banks, has also been hit, with $146bn worth of deals announced in August in the US, and $150bn in July. This compares with $252bn in June and $210bn in May.

Senior bond officials said that almost all deals by borrowers rated below AAA or AA+ by the rating agencies had been put on ice for at least a few weeks. "If this continues into October then it will start to hit our balance sheet quite hard," said the head of a bond desk at a US investment bank in London.

Few, if any, of the 10 or 12 European high-yield - or "junk" - bond issues which were planned before the end of the year are likely to go ahead, say bankers. "Investors are fleeing any type of credit whether we're talking about AA rated or sub-investment grade," said Avinash Persaud, head of currency research at J.P. Morgan. "Only bonds which resemble US Treasury bonds, such as strong collateralised deals, are likely to get away in this climate."

Bankers were not prepared to make predictions about overall investment bank losses in the third and fourth quarters but all agreed that a large proportion of first half profits would be wiped out in the next three months. More than half of investment banking income is derived from fees generated by underwriting public issues in the equity and fixed income markets.



Managers halt Malaysian fund dealings

By Philip Coggan and Clay Harris in London

Managers of funds specialising in Malaysia and south east Asia are being forced to suspend dealings after the imposition by the Malaysian government of capital controls.

HSBC Asset Management said yesterday it has suspended dealing in three funds – two UK unit trusts and a Luxembourg fund known as a SICAV. Fidelity International has suspended dealings in its Luxembourg SICAV, Fidelity Malaysia.

On Wednesday, Jardine Fleming Unit Trusts suspended trading in JF Malaysia Trust, an equity fund, and JF Asia Leveraged Trust, a regional currency fund exposed to the ringgit.

Meanwhile WEBS Malaysia, a fund traded on the American Stock Exchange, returned to trading after suspension on Wednesday. However, the fund asked investors not to redeem their holdings until further notice.

The details of the Malaysian controls are far from clear. The initial announcement suggested that the proceeds of share sales could not be repatriated unless the shares had been held for 12 months.

However, managers say there are now indications that there will be a 12 month lock-in period from September 1 this year, making it impossible to repatriate funds until the autumn of 1999, however long the shares had previously been held. They are accordingly suspending dealing until the position becomes clear.

In open-ended funds, such as mutual funds, SICAVs or unit trusts, investors deal directly with the manager. They face particular problems when markets become illiquid. When investors wish to sell holdings, the managers have to dispose of a proportion of their portfolios to meet such redemptions.

The funds involved to date are relatively small. In the case of HSBC, its Singapore and Malaysia growth fund has £6m ($9.9m) in assets, its Tiger index fund has £7m, and its Malaysian SICAV $2m. Fidelity's Luxembourg SICAV has $15m under management. The SICAVs are generally owned by continental European investors.

Jardine Fleming said most of the investors in its affected funds are based in Hong Kong. JF Malaysia has $28m under management.

But bigger regional funds, covering the whole of south east Asia, are considering their options in the wake of the Malaysian rule change.

Some managers are considering creating a separate security, which would give investors the right to the Malaysian element of the portfolio. That would allow trading in the remainder of the fund to continue. The WEBS fund said it might have to pay redeeming investors in Malaysian ringgits.

Investors head for exit, Page 24

Anger over decision to block tie-up by Chicago exchanges

By Nikki Tait in Chicago

Big futures trading firms reacted angrily yesterday to the collapse on Wednesday night of a plan by the Chicago Board of Trade and the Chicago Mercantile Exchange, the two big US exchanges, to pool their all-important back office functions.

"As a member of both exchanges we're very, very, very disappointed," said FIMAT Futures, the international futures trading group owned by France's Société Générale. "In an environment where most organisations seem to be moving to reduce costs, this seems inconsistent with that trend."

Jim Gary, global futures manager at Dutch banking group ABN-Amro, said his firm was "incredibly disappointed" in the decision, and also "very concerned about what it means for the two exchanges co-operating together on bigger issues".

Many firms had seen the merger of the clearing functions – which could save millions of dollars in administrative expenses and has been mooted for years – as a sensible first step to burying costly rivalry between the organisations and possibly even merging the exchanges.

It was a "missed opportunity", added John Damgard, president of the Futures Industry Association. "It is obvious that exchange politics continue to prevent these institutions from supporting the type of cost-driven initiatives needed to grow our markets," said Ronald Hersch, FIA chairman and senior managing director at Bear Stearns.

The plan was voted down by directors at the CBOT after a special board meeting called partly in response to a members' petition which had circulated on the exchange floor.

The CME described the CBOT decision as "a huge disservice to all members, the clearing firm community and the city of Chicago. Common clearing would have provided tremendous benefits and reduced costs to everyone".

But some in the futures industry said they suspected CBOT's growing ties with the Swiss-German Eurex exchange was behind the decision.

Shell and Texaco agree to pool European downstream assets

By Robert Corzine in London

Royal Dutch/Shell and Texaco of the US yesterday agreed to pool much of their European refining and marketing assets in a joint venture that will be dominated by the Anglo-Dutch group.

The deal, which follows a similar pooling of downstream assets in the US, had been widely expected in the industry. It will give Shell a leading retail position in several European countries, including the UK where the combined group will have more than a fifth of the retail fuel market.

It is the latest sign of consolidation in the international oil industry, prompted by falling oil prices and overcapacity, especially in refining. Last month BP and Amoco announced a full-scale merger and there have been other smaller-scale deals like the Shell/Texaco link.

Shell will have an 88 per cent stake in the proposed joint venture, which will have nearly 30,000 employees at 19 refineries and nearly 16,000 retail outlets.

Shares in Shell Trading and Transport, the UK arm of the group, initially rose on news of the deal, but they later closed down 5p at 330p.

The decline was attributed in part to a mixed reaction to the deal from analysts and industry experts. Some welcomed the agreement as evidence that Shell was taking steps to address the chronic under-performance of its European downstream businesses. The companies expect to make annual cost savings of $200m.

But several analysts said the deal in its announced form did little to alleviate the over-capacity in the European refining industry. There also appear to be significant competition issues in several countries, including the Netherlands, Ireland, Luxembourg and possibly Belgium.

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Co-operative trend, Page 18
Elf talks down prospect of 'mega-merger', Page 16

Chaebol give a little ground in battle over consolidation

Restructuring agreed yesterday by Korea's conglomerates falls short of the asset swaps urged by government, writes John Burton

Ever since he took office in February, Kim Dae-jung, South Korea's reformist president, has been battling the nation's leading conglomerates, or *chaebol*, to reduce their sprawling debt-heavy industrial empires in the name of economic efficiency.

Jealously guarding their turf, the *chaebol* resisted. But yesterday Mr Kim won a partial victory when the five biggest agreed to consolidate businesses in seven industries. The victory may yet prove illusory as analysts question whether the *chaebol* are prepared to give up even the smallest degree of the economic power they have amassed over the past 30 years.

On paper, the restructuring plan offered by the Federation of Korean Industries, which represents big business, marks a significant step toward industrial rationalisation. "It shows the *chaebol* are submitting to structural changes that would have taken a lot longer to implement without government pressure," said Richard Samuelson, branch manager at Warburg Dillon Reed in Seoul.

But this falls short of the government's initial goal of forcing the *chaebol* to swap assets to reduce the number of business activities and focus on core industries. Earlier proposals called for Hyundai or LG to give up their troubled semiconductor divisions and for Samsung to dispose of its struggling petrochemical unit.

Instead, the *chaebol* have agreed to form consortia or to merge operations, which will allow them to keep a presence in even their weakest enterprises. Hyundai and LG will merge in memory chips and Samsung and Hyundai in petrochemicals, although both industries are suffering from overcapacity.

There are also doubts whether some of the mergers will ever occur, as partners haggle over details of ownership and financial issues. It will not be easy for either Hyundai or LG to cede management control of their new semiconductor company to the other, as it would represent a loss of corporate face.

Moreover, management of the new companies might prove difficult because of the strong corporate cultures and fierce rivalries among the *chaebol*, which have rarely co-operated before. "This will be the greatest challenge, with a lot of corporate infighting," said Namuh Rhee, research head at Samsung Securities in Seoul. The record for successful mergers in Korea is poor.

There are also suspicions that the *chaebol* and government are using the mergers to avoid painful measures, such as plant closures and job cuts. The FKI yesterday said that the mergers were likely to lead to more jobs, not fewer, although excess production capacity is Korea's main economic problem.

"Factory shutdowns will determine whether Korea is committed to economic restructuring. I haven't seen any yet," said Christopher Wood, global strategist for Santander Investment in Hong Kong.

There are already complaints among smaller cash-poor companies that the mergers will strengthen the economic dominance of the *chaebol*, rather than reduce it, if the government offers loans, debt write-offs and tax benefits for the restructuring, which will give the conglomerates a financial advantage.

"The chaebol will demand their pound of flesh for undertaking the restructuring and I expect they will receive all sorts of political favours," said Richard Wallace, equities head at Dresdner Kleinwort Benson in Seoul.

Nonetheless, most analysts believe the mergers are positive as they will move Korea closer towards industrial rationalisation.

"Adding capacity to capacity solves nothing, but the merged companies are at least a starting point for restructuring. Mergers are easier when it comes to to job cuts and debt write-offs. Swapping assets would have been more time-consuming and a messier business," said Mr Rhee.

Sohn Byung-doo, vice chairman of the FKI: mergers likely to lead to more jobs, not fewer AP

Doubt over LG's UK chip plant

Uncertainty hung last night over the LG Semicon chip plant in South Wales, which has already been delayed by six months, **writes Juliette Jowit.**

The £1.3bn ($2.2bn) semiconductor plant near Newport, which is eventually expected to employ 1,700, was earlier this year put off until mid-1999. The Welsh plant was seen as important for riding out the Asian recession by giving LG Semicon its first manufacturing base outside South Korea and better access to Europe.

The company yesterday said: "Given the early status of this agreement [with Hyundai], it is obvious that more discussion will have to take place before LG Semicon has additional information to communicate about any specific aspect of the merger, including its Wales plant. LG Semicon Wales has received no instructions about any changes to its plans from corporate headquarters in Seoul."

The future of the LG Semicon project has been the subject of speculation since the Asian crisis broke last year. The company has insisted that the investment – backed by £247m in public grants from the Welsh Development Agency – is safe.

In January the six-month delay was blamed on the extra work needed to upgrade equipment to produce the next generation memory chips from 64 D-Ram to 256 D-Ram.

The LG Semicon plant was part of a venture with LG Electronics worth a total of £2.4bn and 6,100 jobs – the biggest single inward investment project in Europe. The electronics plant opened last year and now employs more than 1,000 people.

Mergers set to cut 'excessive' competition

By John Burton in Seoul

The mergers among the subsidiaries of South Korea's top five conglomerates will reduce what officials describe as "excessive" competition in seven industrial sectors. Hyundai is the most affected by the mergers because "it is concentrated in heavy industries that are suffering from global overcapacity," said Namuh Rhee, research head at Samsung Securities. The proposed deals include:

- Semiconductors. Hyundai Electronics and LG Semicon, Korea's second and third largest chipmakers, will merge to form a company that will rival in size their main domestic competitor Samsung Electronics, the world's biggest producer of memory chips. Hyundai and LG suffered a combined loss of $471m in the first half due to debt burdens and a collapse in memory chip prices. Hyundai and LG must still negotiate over management control of the new company.
- Petrochemicals. Hyundai and Samsung will merge their petrochemicals operations, among the weakest in Korea, with each having a 30 per cent stake. The remaining 40 per cent will be offered for sale to the government or foreign investors, possibly from Japan. The petrochemical units of the SK and LG might merge later to compete against the new company.
- Aerospace. Three of Korea's leading aircraft parts makers – Samsung Aerospace, Hyundai Space and Aircraft, and Daewoo Heavy Industries' aerospace division – will form a consortium with equal stakes. The new company will compete against the manufacturing division of Korean Air, the national carrier, although it may join later. The consortium revives an earlier attempt by the four aerospace companies to develop a commercial airliner with foreign partners.
- Rolling stock. Hyundai Precision and Industry, Daewoo Heavy Industries and Hanjin Heavy Industry will form a consortium for the manufacture of train engines and carriages, although the allocation of equity stakes is still to be determined. All three are involved in the supply of rolling stock for Korea's new high-speed rail system, due to begin in 2005.
- Oil Refining. Hyundai will take over troubled Hanwha Energy, which will make it Korea's third largest refiner and petrol distributor after SK Corporation and LG-Caltex Oil.
- *Ship engines.* Debt-heavy Samsung Heavy Industries will transfer the manufacture of ship engines to the state-run Korea Heavy Industries and Construction (Hanjung), which competes against Hyundai Heavy Industries in the sector.
- Power generation equipment. Hyundai Heavy Industries and Samsung Heavy Industries will transfer their power generation divisions to Hanjung, the industry leader in Korea.

NKK seeks to take over operations of Toa Steel

By Alexandra Harney in Tokyo

NKK, Japan's number two steelmaker, said yesterday it would establish a new company to take over the operations of Toa Steel, its troubled electric furnace subsidiary, after Toa announced it was considering filing for liquidation with Y264bn ($1.9bn) in liabilities.

The move is likely to fuel concerns about Japan's ailing steel industry, which has been hit by a slump in domestic demand and a fall in global steel prices. NKK is expected to announce a significant downward revision of its earnings forecast today.

Trading in shares of NKK and Toa was suspended yesterday amid reports of Toa's possible liquidation. NKK had plunged 8.9 per cent to Y113 and Toa had sunk 17 per cent to Y63 before trading was halted. Iron and steel shares fell 3.3 per cent overall following news of the takeover.

Toa, which is 51.6 per cent owned by NKK, said it would decide today whether to file for liquidation. The electric furnace operator has incurred losses for the past four years: last year it reported a net deficit of Y23.9bn, after losses of Y8.7bn the year before. At the March year-end it had liabilities of Y264bn and assets of Y43.4bn.

Analysts said the company, which specialises in H-beams and other steel shapes, had been on the brink of bankruptcy for several years because of deteriorating conditions in the steel market and investment in costly new facilities.

Electric furnace companies in particular have been squeezed by the contraction in construction demand amid Japan's economic stagnation, and intense competition as a result of overcapacity. Although steel companies have compensated by expanding shipments to the booming US market, overseas sales were not sufficient to offset the decline in domestic demand, analysts said.

In the first quarter of this year, domestic steel shipments fell 11 per cent, according to Warburg Dillon Read. Demand was down 15-20 per cent year-on-year over the same period.

The collapse in global steel prices exacerbated the company's high operating costs, analysts said.

"The spending that Toa did to replace an ancient mill with a state-of-the-art mill in Kashima became a burden," said Stephen Wolfe, industry analyst at Warburg Dillon Read.

NKK already has a considerable role in management: Yoichi Shimogaichi, NKK president, joined the Toa board of directors earlier this summer.

However, it was unlikely that the takeover of Toa, which accounts for only 3 per cent of the capacity in the market, would trigger a restructuring or a move toward consolidation in the industry, analysts warned.

"I'm terribly cynical and wouldn't hold my breath about restructuring," said Conny Jamieson, analyst at Warburg Dillon Read.

NEWS DIGEST

TRAVEL

Asia downturn behind 4% fall at Air New Zealand

Air New Zealand yesterday blamed a 4 per cent fall in tax-paid profits to NZ$144.8m (US$73m) for the year to June 30 mainly on the slowdown in Asia and falling tourism numbers. Asian passenger arrivals fell 24.7 per cent, although this was offset partly by increased numbers of travellers from the US and Europe. International capacity was 2.5 per cent lower than in 1997. Load factors averaged 68.5 per cent. Group revenues rose 5.4 per cent to NZ$3.09bn.

The international operations of the Ansett Australia subsidiary also suffered from the Asian crisis. Trading revenues were A$3.29bn (US$1.92bn) compared with A$3.24bn giving a pre-tax profit of A$27.8m, against a loss of A$300,000 last year. Directors said the coming year would be challenging, but the company would refocus on the more robust markets in Australia, the US, the UK and Europe. The second-half dividend is cut to 8 cents a share, from 12 cents last year. **Terry Hall, Wellington**

PAPERMAKING

Sinar Mas unit posts 35% rise

Pabrik Kertas Tjiwi Kimia, the paper production subsidiary of the diversified Indonesian Sinar Mas group, yesterday reported a 35 per cent rise in first-half net profits thanks to foreign exchange gains. The interim profit of $73.7m compared with $54.4m last time on a foreign exchange gain of $43.1m, against $18.3m previously. Sales fell 26 per cent from $359m to $264.2m, largely because of a 15 per cent drop in paper prices. **Sander Thoenes, Jakarta**

THAI BANKING

Siam Commercial losses deepen

Siam Commercial Bank, Thailand's fourth largest bank, has increased its audited losses for the half-year to Bt11bn ($271m). Its auditors, Deloitte Touche Tohmatsu, had refused to accept tax deferrals of about Bt4.2bn that had helped the bank post unaudited losses of just Bt8.31bn when it reported its results in July.

The Thai authorities have committed themselves to opening up company accounts as part of its IMF-approved scheme to attract more foreign investment. Siam Commercial had deferred tax from 1997, due in April, because it understood it could take tax credits on loan losses this year. But Deloitte Touche refused to accept the lower loss figure in view of the bank's poor earnings outlook.

The collapse of Thailand's decade-long boom has exposed the relationships between auditors and Thai companies. Deloitte is appealing against a three-month suspension handed out to one of its partners for failing to query loans made by Finance One, the country's leading merchant bank that collapsed last year.
William Barnes, Bangkok

Delta Gold to list platinum

By Gwen Robinson in Sydney

Delta Gold, an Australian gold and platinum miner, confirmed its position as the country's lowest cost gold producer with record full-year profits. The company also said it intended to pursue a London listing for its Zimbabwe platinum interests, if shareholders approved a plan to separate and float off the assets into a public company.

The new company, Zimbabwe Platinum Mines, or Zimplats, would be listed on the Australian Stock Exchange in mid-October after which Delta Gold would consider a London listing, said Terry Burgess, chief executive. Delta believes the float would unlock value in its share price and would allay shareholders' concerns of being asked to contribute more funds to develop the Zimbabwe platinum interests.

Delta's Zimbabwe platinum assets were last week valued at A$54m-A$84m (US$31.5m-US$49m) in an independent assessment, although the company has valued the assets at A$70m in its scheme of arrangement for the proposed float.

Australian gold operations, however, drove Delta's strong earnings performance in the year to June. Net profit nearly doubled to A$42.1m, largely because of record gold production of 350,000 ounces and a 33 per cent reduction in cash costs.

The company enjoyed a record low production cost average of A$174 an ounce from its two main mines, Kanowna Belle and Granny Smith, in Western Australia. The low costs also helped hedge against falling gold prices in the year.

A final dividend of 4 cents doubled the total dividend to 6 cents from the previous year.

In the proposed demerger of the company's platinum interests, Delta's shareholders would be offered one Zimplats share for every five Delta shares.

Delta would distribute 49 per cent of its Zimplats shares to shareholders and retain a 51 per cent interest, which would be progressively diluted to zero as the new company raised funds to develop platinum interests.

Delta Gold shares rose 3 cents to A$1.72 after reaching intraday highs of A$1.91.

HONG KONG MONETARY AUTHORITY TO DISCLOSE NEW HOLDINGS ONLY IN CASE OF HSBC

HK body declines to reveal stakes

By Louise Lucas in Hong Kong

The Hong Kong Monetary Authority, the de facto central bank, will not disclose the stakes it built up in locally listed companies during the latter half of August, although it will fully comply with all such requirements for HSBC Holdings.

HSBC Holdings, which is listed in London and Hong Kong, earlier this week said the territory's government is now the biggest shareholder, with an 8.9 per cent stake. This gives rise to conflicts of interest, analysts say, although the two bodies have long enjoyed a close alliance.

The HKMA indicated it would not push for board representation and would not seek to influence corporate direction. The stake was taken primarily as part of a strategy to banish speculators from the markets and to restore stability, it said.

But analysts said investors would still be wary of possible conflicts of interest and the influence that the holding – and the fact it will be sold down in the future – has on the market.

"Given the government owns a fairly large piece of HSBC, it is probably unlikely to introduce any rules or regulations which would increase the level of competition in Hong Kong banking, and which could adversely impact profitability," said one analyst.

The question of a conflict of interest is perhaps more pressing in some of the utility stocks held by the government. It has exposure to both Hongkong Telecom and Hongkong Electric, through Hutchison Whampoa.

Both telecoms and electricity sectors are under review. Hongkong Electric now enjoys a virtual duopoly with China Light and Power, and tariffs must be approved by the government.

Such approval is also required by the former telecoms monopoly, which now competes with three fixed-line groups and a handful of callback operators. Next month the government is due to announce whether it will dispense any additional licences: if it backpedals on liberalisation it will face attack from potential bidders for the licences.

'Mergers set t[o] cut 'excessiv[e]' competition

NEWS

TRAVEL

Asia downturn behi[nd] fall at Air New Zea[land]

PAPERMAKING

Sinar Mas unit posts 35[...]

THAI BANKING

Siam Commercial losses dee[pen]

[...] to reveal stake

هكذا من الأصل

TELECOMMUNICATIONS UCS NETWORK TO BE AIMED AT SUPPLYING CAPACITY TO INTERNET SERVICE PROVIDERS

Unisource mulls options after AT&T quits

By Christopher Price

Unisource, the pan-European telecom consortium, is discussing options for its main operating subsidiary Unisource Carrier Services (UCS) in the wake of AT&T's decision to leave the partnership, including either a trade sale or public listing.

Unisource is owned by KPN of the Netherlands, Telia of Sweden, and Swisscom, the Swiss telecoms operator. Besides its interest in UCS, Unisource has a 60 per cent stake in AT&T-Unisource Communications Services, with the US group holding the remainder.

However, after the formation of an international alliance with British Telecommunications in July, AT&T gave notice it would wind up its partnership with Unisource. Disposing of or listing UCS would leave Unisource with few other assets and could signal its demise.

André Käser, president of UCS, said yesterday that the subsidiary, which carries telecoms traffic for business customers and other telecoms groups, was experiencing strong growth and its future was a bright one. "We have our own customers and do not rely on AT&T traffic at all."

He was speaking after announcing the launch of UCS's new pan-European telecoms network using asynchronous transfer mode (ATM), a fast transmission and switching technology.

The $20m network will link big European cities and has been developed with Lucent Technologies of the US. Further investment of $50m will extend the network into southern Europe and the US.

Mr Käser denied UCS would be competing with other pan-European networks. He said the UCS network would be aimed at supplying capacity to internet service providers, rather than telecoms operators or large corporate users.

AT&T has already said it will sever its Unisource connections by July 2000.

Unisource made a net loss of Fl 135m ($68m) in 1997 but claimed the AT&T joint venture had been largely responsible for the loss. Unisource suffered as a result of last year's decision by Telefónica of Spain to leave.

AT&T is also to wind up its interest in the WorldPartners alliance, in which it has a 40 per cent stake. KDD of Japan has 24 per cent, Singapore Telecom 16 per cent and Unisource 20 per cent.

André Käser: 'We have our own customers and do not rely on AT&T'

August 'worst month for hedge funds'

By William Lewis in New York and Jane Martinson in London

Hedge funds turned in one of their worst monthly investment performances last month, according to US-based consultancies.

Managed Accounts Reports, a New York-based consultancy, said three-quarters of hedge funds it had analysed were down in August and 27 per cent had losses exceeding 10 per cent.

George Van of Van Hedge Fund Advisors International, a consultancy advising on hedge funds, said: "It is certainly one of the worst months in recent times. It truly is a terrible month."

While many hedge funds have yet to release details of last month's investment performance, MAR said that preliminary results from 155 hedge funds indicated that *emerging market specialists*, particularly those investing in Russia, were hit hardest.

Everest Capital's Frontier Fund, an emerging markets fund, is estimated to be down 50 per cent in August and about 64 per cent for the year to date. Everest's International Fund, which has a 50 per cent investment in the Frontier Fund, is estimated to be down 35 per cent for August and 41 per cent for the year to date.

Everest Capital Ltd, which had total assets of $2.7bn at the end of June, moved to calm investor sentiment yesterday. The offshore company said it was suffering no financial problems.

Earlier this week Long-Term Capital Management, run by John Meriwether, disclosed it suffered a fall in its net asset value of 44 per cent in August and 52 per cent for the year to date.

About 13 partners and several members of staff own a third of the Connecticut-based hedge fund. Half the fund's net asset value has disappeared since January because of the emerging market turmoil. Its net asset value now stands at $2.3bn.

However, the fund stressed yesterday its finances were in order with healthy credit facilities and counterparty arrangements.

LTC is a market neutral hedge fund. MAR and other consultancies said that while overall performance of these types of hedge funds had been broadly flat during August, some had clearly suffered large losses.

A number of hedge funds with large Russian exposures, are said to be struggling to stay afloat. The High Risk Opportunities Hub Fund, a $450m hedge fund affiliated with III Offshore Advisors, has already *filed for liquidation*.

MAR added that a number of Russian-focused hedge funds were refusing to provide details of their net asset value positions and were also putting investor redemptions on hold.

MAR said they were doing this because of difficulties in pricing the value of their underlying securities.

Short seller hedge funds performed strongly in August, according to the MAR report, with an estimated median gain of 21.8 per cent. Market neutral and hedge funds specialising in global macro investing were both broadly flat.

The month's worst performer, according to MAR, was Croesus-UFG Russia Fund, which lost 57.5 per cent. Its assets now stand at $21.4m. The top performer was Peregrine Investment Partners, a short seller, which gained 56.7 per cent on assets of $600,000.

3Com in deal for licence fee on modems

By Roger Taylor in San Francisco

3Com, the largest modem-maker in the US, has signed a deal with Brent Townshend, an independent inventor, which could allow it to collect a fee on each sale of the next generation of personal computer modems.

The company said it had entered into an exclusive licence with Mr Townshend, who has been issued a patent on technology which is key to the new model of modem.

It plans to license the technology to other modem makers on "reasonable terms". It is thought to be considering levying a fee of about $1 a modem on all other manufacturers.

The modem industry has only recently agreed on a new standard for future 56K modems – the current standard for most PC users – following a battle over standards between 3Com and other manufacturers. However, 3Com now says that part of the technology *fundamental* to the new design belongs to Mr Townshend.

The company said it had been in negotiations with Mr Townshend for about three years and has been working with his ideas in the development of the new V.90 modems.

3Com became the leading modem producer last year after its acquisition of US Robotics. However, the company, which also makes networking equipment for companies and the PalmPilot hand-held device, has suffered with other networking equipment producers following a slowdown in the market.

Its shares have lost about half their value over the past year, and are trading at around $25, compared with a high of over $56.

Earnings per share for 1998 were down at 8 cents, compared with $1.41 in 1997. Revenues have continued to rise, reaching $5.4bn in the past year.

Venezuela's aluminium sell-off falters

By Christina Hoag in Caracas

The only qualified bidder in the privatisation of Venezuela's beleaguered aluminium complex withdrew on Wednesday evening, scuppering the government's third sale attempt.

The move came less than 24 hours before the group, called the Venezuelan Aluminium Consortium, was due to post a $120m letter of credit guaranteeing that it would make a bid in the sale, scheduled for Monday.

The consortium, made up of Billiton of the UK, Kaiser Aluminum of the US, and Sural, a Venezuelan aluminium fabricator, blamed its decision on the current depression in international capital markets.

The minimum price for a 70 per cent stake in the four-plant complex, which produces 4 per cent of the world's aluminium, was set at $1.55bn including of $1.2bn in debt.

This is the second time the Billiton-led group, as sole bidder, has withdrawn at the last minute from the sale. In July, it blamed its decision not to bid on internal differences.

In March, the government's first attempt to sell *the group ended in failure* when three qualified bidders refused to bid, saying the $2.1bn base price was too high and conditions too stringent.

Boris Molina, senior analyst at Santander Investment Bank, said after the second attempt chances of selling the money-losing complex were "very remote" due to the swelling Asian crisis and falling aluminium prices.

"The government passed up the opportunity a year ago when we had a bull market," *he said.* "With the amount of investment that the government is requiring [the buyer to put in] financing would be very limited now."

The buyer would be required to assume $1.2bn in debt, half owed to the central government and half to foreign banks, and invest $300m in plant modernisations.

The government said it would restructure the companies, which include bauxite mines and processing as *well as aluminium manufacture*, while alternatives to privatisation are being studied.

The complex, which is burdened with an overloaded payroll of 9,800 workers and deteriorating equipment, is expected to lose at least $220m this year.

CIBC blames US acquisition for fall

By Edward Alden in Toronto

The Canadian Imperial Bank of Commerce, Canada's largest bank, yesterday said acquisition and integration costs associated with its expansion into the US investment banking market lay behind a 43 per cent drop in third-quarter net earnings.

The bank warned investors early last month its earnings for the quarter ended July 31 would disappoint, triggering a 16 per cent drop in its share price and a large sell-off across the banking sector.

Net earnings were C$245m (US$158m), or 52 cents a share, against C$401m, or 90 cents, last time.

Return on equity, a closely watched measure of bank performance, fell from 17.8 per cent a year ago to 9.2 per cent.

Total revenue increased 11 per cent to C$2.435bn.

CIBC also announced yesterday a 20m share buy-back plan, just under 5 per cent of the outstanding common shares, in an effort to bolster its share price. CIBC was trading at C$30.15, down 5 cents, at midday yesterday, down from a 52-week high of C$59.80.

It said the costs of its acquisition of Oppenheimer, the New York equity dealer, cut net income by C$69m in the third quarter and C$135m on the year to date.

But Al Flood, CIBC chairman, said the US investment remained an "important strategic initiative that enabled us to keep pace with the rapidly evolving financial services market".

Several Canadian banks, including CIBC, the Bank of Montreal and Toronto-Dominion Bank have made US acquisitions in an effort to diversify their operations.

Four of Canada's five largest banks have proposed mergers in part to expand their presence internationally. CIBC, which wants to merge with T-D Bank, generated about 70 per cent of its profits in Canada last year.

Kevin Choquette, analyst at Scotia McLeod, said the results reflected CIBC's rapid expansion in the US equity market as trading revenue was declining sharply.

SAB considers moving stock listing to London

By Victor Mallet

South African Breweries, one of the world's biggest, is considering transferring its primary stock exchange listing to London from Johannesburg, a move that would arouse intense political hostility from South Africa's ruling African National Congress and its trade union allies.

SAB, which has a secondary listing on the London Stock Exchange, said yesterday the move would enable it to raise more capital more cheaply than in South Africa. The company has expanded rapidly in Africa, China and eastern Europe and is looking at the possibility of making a big international acquisition.

"The rationale for the listing proposal is that it would enable SAB to raise significantly greater amounts of equity capital to finance its offshore operations than are available with a primary listing on the JSE," Graham Mackay, group managing director, said in a memorandum to SAB staff.

The company was obliged to issue the memo – and make it public through the JSE – after the Financial Mail magazine disclosed details of its plans this week.

SAB is one of several big South African companies considering the possibility of following in the footsteps of Billiton, the metals group spun off from the Gencor conglomerate last year and now based in London.

Old Mutual, the life assurer and financial services group which plans to demutualise next year, was fiercely criticised by the Congress of South African Trade Unions in June when it emerged that it might seek a primary listing in London.

That remains particularly controversial because Old Mutual is big enough to join the FTSE 100, and companies that want to become constituents of the market indices have to be UK incorporated and resident in the UK for tax purposes. Plans by Liberty Life to make its primary listing in London appear to have been put on hold following opposition from South African authorities.

SAB – which is already in dispute with the South African government over legislation that would reduce its near-monopoly in the local beer business – took pains yesterday to emphasise its commitment to the country.

Fidelity seeks a starring role

By John Authers in New York

Plunging stock markets have not deterred Fidelity Investments, the world's largest fund manager. Yesterday, as world markets continued to suffer turbulence, the company chose to launch its most ambitious advertising campaign in a *Broadway* theatre.

Peter Lynch, the legendary fund manager who steered Fidelity's Magellan fund to its current position as the largest US open-ended fund, shared star billing with Lily Tomlin, the well-known US comedienne who is his co-star in Fidelity's advertising campaign.

The television commercials, which Fidelity started planning six months ago, now seem eerily appropriate. In one, Mr Lynch is taking a physical check-up on a treadmill, while Ms Tomlin plays the part of the nurse examining him. As the medical continues, the treadmill bucks up and down, and the speed changes sharply. Mr Lynch gasps: "This reminds me of the stock market."

In questions, Mr Lynch stuck rigidly to his stock-picking credo, making clear that he was not alarmed by the recent sharp falls in the market, and that the long-term link between share prices and profits would *remain.*

"Since the end of the war, corporate profits have gone up 60-fold, and the market has gone up 54-fold," he said. "I would like to see the market go sideways for a couple of years and have all the secondary stocks catch up."

"We'll find out whether this is a correction or a bear market. We've already had a bear market in secondary stocks."

He discounted the long-term effects of extra investing by the ageing "baby boom" generation, and the growth of internet trading, which now accounts for 60 per cent of all trades at Fidelity's retail brokerage. He said that neither factor had stopped Bethlehem Steel's share price from falling in the long term in response to a long-term fall in its profits.

However, the event also showed Fidelity's nervousness about retail investors' understanding of the stock market, which some equity strategist believe could destabilise the market.

Indications during the past few weeks are that there has been little or no "panic selling", and that most investors have held on to their equity holdings.

However, Mr Lynch said: "The public believes in stocks but they don't understand why. I think if they are better informed they may understand the nature of these declines."

His comments were backed by Fidelity market research which indicated *that the average American* spent 137 hours of research before purchasing a vacation, and 124 hours before buying a car, but only 60 hours before making investment decisions.

The same survey found that only 25 per cent of Americans understood that Treasury bond prices go up when interest rates go down, even though a higher proportion than this owns *mutual funds invested in* bonds. A further 23 per cent said that Treasury bonds would go down after a cut in interest rates, while 27 per cent said there was no relation.

Fidelity as a company, however, seems confident, with its investment performance recovering after a disastrous dip in 1996 which led to a raft of bad publicity and an erosion in its market share. Vanguard, of Pennsylvania, has overtaken it as the company that attracts most new cash flow, and the campaign is an attempt to restore market share.

It has at least gained one new investor in Ms Tomlin. She admitted that when younger her politics had prevented her from investing in the stock market. Now she has stakes in a Fidelity growth and income equity fund, and in a specialist utilities fund.

Supporting actress: Lily Tomlin features in advertising campaign AP

OIL FRENCH GROUP PREFERS TO CONCENTRATE ON 'PROMISING INTERNAL GROWTH' AFTER 7% DECLINE AT HALFWAY STAGE

Elf talks down prospect of 'mega-merger'

By David Owen and Mark Mulligan in Paris

Philippe Jaffré, Elf Aquitaine chairman, yesterday played down the prospects of the French oil group taking part in a mega-merger along the lines of the recent British Petroleum-Amoco combination.

Speaking as Elf reported a small downturn in first-half profits, Mr Jaffré said the group believed internal growth prospects in its exploration and production division were good enough for it to be directing most of its resources there.

It would be inappropriate to divert from management of the group's very promising internal growth to the more difficult task of managing a considerable external growth operation that would be less interesting for shareholders, he said.

But he suggested the group's position in European refining and distribution could be improved by a "well prepared and well conducted" alliance. He also made clear he would still welcome a tie-up between Sanofi, Elf's drugs arm, and another pharmaceuticals company.

Mr Jaffré's comments came as Elf reported a 7 per cent decline in first-half net income to FFr4.59bn ($782m). Including special items of FFr342m from disposals of financial interests in the 1997 first half, the fall was nearly 13 per cent.

A sharp drop in sales, from FFr128.4bn to FFr112.8bn, partly reflected a 30 per cent decline in oil prices in the past 12 months, according to Mr Jaffré, although strength in downstream and chemical operations helped offset this weakness.

The industry's pricing woes were more dramatically illustrated in the breakdown of operating profits by sector: in exploration and production they were down 41 per cent to FFr5.4bn.

Operating profits from downstream operations, however, more than doubled, to FFr1.8bn, thanks to improved refining margins, productivity gains and a healthy marketing environment.

In chemicals, the result was ahead 10 per cent to FFr2.2bn in spite of flat sales. Again, the improvement was attributed to improved margins and productivity.

A similar advance was posted at Elf's health division, where a 12 per cent operating improvement at Sanofi, which is 55 per cent owned by Elf, led to a FFr1.2bn contribution to the parent's income.

Mr Jaffré said that Elf had resisted the effects of the oil price weakness well, but warned that conditions in the second half remained uncertain.

He said production cuts of 1m-2m barrels a day were needed to restore equilibrium to the market.

"The impact of the economic slowdown in Asia, combined with the new petrochemical capacities on the market could lead to a deterioration in this sector towards the end of the year or the beginning of the next year," he said.

Analysts agreed with his outlook, with one predicting a 20 per cent decline in full-year profits at Elf, from FFr20bn in 1997.

In spite of the gloom, however, the shares rose 2.17 per cent yesterday to FFr611 against a falling market.

Sector gloom over Clariant slowdown

By Jenny Luesby

A second-quarter slowdown at Clariant, the Swiss speciality chemicals group which is one of the industry's fastest growing companies, yesterday cast further gloom over the sector, with analysts downgrading profit forecasts across the board.

Clariant last month announced that sales in local currency terms had risen 1 per cent in the second quarter. This compared with 9 per cent in the previous quarter and more than 10 per cent in the second half of last year.

Yesterday, the group also reported a slowdown in profits growth. Operating income rose 19 per cent in the first half to SFr565m ($391.3m), on sales of SFr5.01bn. This compared with a 53 per cent rise in operating profits in the first half of last year.

The Asian crisis cut sales by SFr100m in the first six months and dented some of the group's American markets, with US sales of electronics chemicals particularly hard-hit.

Across its portfolio, Clariant reported a 2 per cent decline in chemical prices. However, Roland Lösser, chief financial officer, said Clariant still expected double-digit net income growth in 1998, aided by tax reductions arising from the integration of the speciality chemicals business acquired from Hoechst, of Germany.

He also predicted a "solid improvement" in operating income this year, thanks to cost-cutting, and reaffirmed the group's expectation that it would meet its 1999 target of a 15 per cent return on sales in all divisions.

In the first half, the group's return on sales reached 12.3 per cent, compared with 10.9 per cent a year earlier. The group was downbeat about prospects for the sector as a whole, predicting pricing pressures through into next year.

Tony Cox, chemicals analyst at Dresdner Kleinwort Benson, said Clariant's comments on the sector's outlook had prompted a series of profit downgrades.

It was now clear the downturn in the petrochemicals industry, caused by the addition of too much new capacity, was being accompanied by a slowdown in speciality chemicals, triggered by declining markets.

Another analyst said the results were particularly gloomy from one of the sector's most aggressive competitors. "With US speciality chemical companies downrated as a result of undercutting, we are now seeing Europeans losing momentum as well. If they are rerated too, the change could be permanent," he said.

Lex, page 12

Trustor inquiry intensifies

By Jimmy Burns in London and Tim Burt in Stockholm

Swedish prosecutors have returned to the UK to interview Lord Moyne, the Guinness peer, and Lindsay Smallbone, his former business associate, over the alleged SKr485m ($61m) fraud unearthed last year at Trustor, the Swedish investment company.

A Swedish official confirmed that his country's state prosecutor, Bo Skarinder, was conducting three days of interviews connected to the case at the Swedish Embassy in London.

Mr Skarinder, whose previous visits to the UK have involved meetings with the London-based Serious Fraud Office, last month halted extradition proceedings against Lord Moyne, former Trustor chairman, and Mr Smallbone, former managing director, in connection with alleged embezzlement, swindling and book-keeping offences.

The prosecutor said he had temporarily dropped requests to arrest the two men after they voluntarily offered to be interviewed by him in London.

Mr Skarinder will consider whether to make a fresh warrant request only after completing the interviews and considering additional evidence.

Separately, lawyers acting for the Trustor liquidators in Stockholm confirmed yesterday they had begun bankruptcy proceedings against Lord Moyne in the Swedish courts.

In an action filed with the Stockholm district court earlier this week, lawyers have asked for receivers to be appointed to Lord Moyne Holdings – a Swedish registered company which ultimately held 17 per cent of Trustor's shares and 51.8 per cent of the voting rights.

Stefan Lindskog, the lawyer heading the liquidator's legal team, said: "If our petition is accepted, Lord Moyne will be declared bankrupt in Sweden and his business interests here will be represented in future by a receiver."

Mr Lindskog said the liquidators hoped the move would help them unravel share transactions between Lord Moyne and St Crispin Trading, an investment company registered in the British Virgin Islands.

"The appointment of a receiver to Lord Moyne's company in Sweden is an important step for us," said Mr Lindskog. "It will be much easier to deal with the receiver than the peer himself."

Three former UK Conservative party politicians – Henry Bellingham, Ron Buxton and Major Anthony Gurney – last December declared themselves shareholders of St Crispin. Mr Bellingham has denied any "direct or indirect" connection to Lord Moyne.

Both Lord Moyne and Mr Smallbone, who also face civil lawsuits for damages from Trustor shareholders, had indicated they would not travel voluntarily to Sweden to stand trial. They deny any wrongdoing, maintaining they acted on behalf of three Swedes who later deceived them.

Two of the Swedes, Thomas Jisander and Peter Mattsson, have been released on bail after being charged in Stockholm with breaching or assisting a breach of shareholder trust. A third, Joachim Posener, has fled the country and is being sought by Interpol.

The case centres on alleged fraud at Trustor after Lord Moyne bought a controlling stake last year and became non-executive chairman.

Shortly afterwards, SKr530m disappeared from Trustor's Stockholm bank accounts, of which only about SKr125m has been recovered in spite of police investigations across more than a dozen countries.

Lawyers acting for Trustor have discovered an apparent £230,000 ($384,000) transaction involving a bank account held by Thomas Jisander which led to the hire of a luxury yacht last year. They are also thought to be investigating payments last summer to several credit card companies totalling an estimated £250,000.

It has also emerged that Mr Smallbone last month entered his team in a polo tournament in the south of Spain, but has since begun to sell some of his horses, having transferred the ownership of the team.

Lord Moyne: denies any wrongdoing Derek Speirs/Report

Cockerill Sambre coy on preferred purchaser

By Neil Buckley in Brussels

Cockerill Sambre, the Belgian steelmaker that is being privatised, refused yesterday to reveal its preference between its two potential buyers – Germany's Thyssen Krupp and France's Usinor – but said it looked forward to being part of one of the world's biggest steel groups.

Its comments came as Cockerill revealed first-half profits well ahead of expectations. Net profits jumped more than ten-fold from BFr748m to BFr7.49bn ($207m), reflecting the progress of the group's "Horizon 2000" cost-cutting programme and strong European demand.

Jean Gandois, chairman, warned that the second half was likely to be more difficult, with the impact of the Asian crisis continuing to put pressure on European prices, but he still expected a "large" full-year profit.

Cockerill, one of Europe's last big state-owned steelmakers, is being privatised by its 79 per cent shareholder, Wallonia, the French-speaking southern region of Belgium.

Usinor and Thyssen Krupp were shortlisted by the Walloon government in July as potential bidders and must submit final bids by September 21, with a final decision expected in early October.

Mr Gandois refused to reveal which candidate he favoured, adding that both were "powerful groups" with significant synergies with Cockerill, though in different areas.

"Cockerill married to either of them would form part of the biggest steel company in Europe," he said. "In production and turnover it would be in the same league as the big Japanese or Korean groups."

However, Mr Gandois refused to rule out the possibility of Cockerill remaining a stand-alone company if either bid was unacceptable with respect to price or guarantees on maintaining employment in Wallonia.

Earlier, Francis Mer, Usinor chairman, warned that it would not be dragged into paying too high a price for the Belgian steelmaker. "Usinor can live without Cockerill and we are not ready to pay any price," he warned.

Mr Gandois said Cockerill was now achieving about 40 per cent of the projected BFr10bn annual cost savings from its restructuring. Group sales increased 8 per cent from BFr104.3bn to BFr113.3bn, with crude steel production up from 3.2m tonnes to 3.7m tonnes.

Minorco 'in no position' to make share buy-back

By Kenneth Gooding, Mining Correspondent

Minorco, the Luxembourg-based subsidiary of South Africa's Anglo American group, is not in a position to buy back some of its own shares in spite of present low prices, Hank Slack, chief executive, said yesterday. However, it would consider making an offer for the 43.2 per cent of Terra, the US agribusiness, it does not own.

Mr Slack said Minorco could not buy its own shares because of the London stock exchange rule that at least 25 per cent of a company's shares should be freely available before a full listing.

He had announced earlier that Minorco's half-year net earnings were down 38 per cent to $123m against the same 1997 period, hit hard by lower metal, nitrogen and methanol prices. The interim dividend is to be held at 22 cents, but Mr Slack hinted the final payment might be cut for the first time in the group's 70-year history.

"While it would be the intention to maintain dividends through a downturn in the commodity cycle, this will need to be kept under review depending on developments in the next 12 months or so," he said.

Mr Slack said it was "highly unlikely" prices would improve in the second half. While Minorco would try to improve operating efficiency, earnings before exceptional items would be lower than the first half's $271m, down from $409m.

He said Minorco would make a decision about the sale of its gold interests before the end of the year and was in talks with third parties including the sister company, Anglogold.

Mr Slack would not be drawn on the price Minorco wanted, and denied Anglo American was orchestrating the sale for the benefit of Anglogold. "The decision to look at selling was ours."

Rob Davies, analyst at ING Barings, suggested the gold operations were worth between $445m and $542m.

He said cash would be preferable because Minorco needed to reduce its debt, which stood at $3.7bn at June 30. Interest payments would soon begin to bite and "Minorco will be pushed to make any money next year. This company is crying out for restructuring."

In the half-year, Minorco's sales increased from $3bn to $3.2bn and operating earnings fell from $407m to $303m. Earnings per share were down from 88 cents to 55 cents.

Ahold moves to reassure investors

By Gordon Cramb in Amsterdam

Ahold, the Dutch supermarkets group seeking this month to raise $2bn in the international capital markets, signalled yesterday that its next big takeover would not require a share issue.

At the same time, it said an unspecified proportion of the $2bn – needed to cover its planned $2.6bn purchase of the Giant Food chain in the US – would come in the form of convertible bonds.

The statements were designed to reassure investors made nervous by the turbulence in world markets.

Ahold is the Netherlands' biggest secondary issuer of equity, with which it routinely funds earnings-enhancing expansion abroad.

It reported yesterday a 27.8 per cent boost in interim net profits to Fl 564.4m ($286m), or Fl 1.01 a share against Fl 0.83. Its shares rose 60 cents to Fl 61.90 against a falling Amsterdam bourse.

"After consolidating Giant Food and a successful completion of the offering, we are in such good shape that we can afford to make a fairly sizeable acquisition without the support of equity markets," said Cees van der Hoeven, president.

Michael Meurs, chief financial officer, said this could include a purchase next year on the scale of Giant. The company would decide next Monday on the mix of bonds and shares in the latest offering, which runs from September 10-24.

In March, Ahold raised Fl 2bn to finance investments in Argentina and Chile and provide a pool for medium-size deals. That offer was priced at Fl 67, near their peak. "Someone who bought then may be a bit of an unhappy person," Mr Meurs conceded.

But the group said it was raising its target for per-share earnings growth from 15 per cent this year to 20 per cent for 1999. That reflected its expectations for the Washington DC-based Giant, from which it sees $30m in synergy benefits next year and $50m in 2000.

In Asia, where operating losses in the 28 weeks to July 12 widened to Fl 42.6m from Fl 38.1m, Ahold expects break-even in 2000. Global revenues at Fl 29bn were up 13 per cent.

● De Boer Unigro, Ahold's main domestic rival, lifted its first-half net profits 14.1 per cent to Fl 52.7m. It expects to match that trend in the current six months, before its proposed merger with Vendex Food is taken into account. Shareholders vote on the deal next month.

Investcorp targets Leica Geosystems

By Jane Martinson, Investment Correspondent

Investcorp, the Bahrain-listed investment company best known for its purchases of luxury goods groups, yesterday moved into the industrial measurement market with the proposed purchase of Leica Geosystems for SFr450m ($312m).

The planned acquisition marks the end of the long-standing relationship between the Schmidheiny family, one of the wealthiest in Switzerland, and the Leica brand name.

Investcorp is to pay Lancet Investments, the company controlled by Stephan Schmidheiny, the head of the family, in a combination of cash and loan notes.

Johannes Huth, a member of Investcorp's management committee, said the company was keen to expand into the specialist precision measurement market and was looking for further bolt-on acquisitions.

Investcorp aims to expand the global positioning systems side of Leica, which produces measurement devices for surveying property. Mr Huth said this satellite-based system had many unexplored uses in areas such as agriculture and mining.

He added that the price, at less than Leica's turnover of SFr460m in the year to March, was a "good one". However, Lancet, a private company, refused to reveal last year's profits.

Mr Huth said there were no plans to cut Leica's 2,350 workforce. Existing management will continue to run the company.

The deal represents Investcorp's fourth European acquisition this year. Mr Huth said yesterday that the current market turmoil had increased buying opportunities.

The group, which has previously bought companies such as Saks Fifth Avenue, has bought little in the luxury goods market in the past few years. Mr Huth said yesterday it saw greater potential in industrial sectors or consumer branded products in Europe.

Leica Geosystems is not connected to the camera company of the same name.

NEWS DIGEST

CARMAKING

Quandts deny they will alter stake in BMW

The Quandt family, a leading shareholder in BMW, the German carmaker, yesterday dismissed speculation that it intended to alter its equity holding in the company after Ferdinand Piëch, Volkswagen chairman, was reported this week to have said that VW could acquire about one-quarter of BMW's shares. "All presumptions about a change in the position of the Quandt family and their commitment to BMW for almost 40 years is false," a Quandt family statement said.

The Quandt family owns about 49 per cent of BMW shares. The statement was issued by Quandt family members Johanna Quandt, Susanne Klatten (née Quandt) and Stefan Quandt. Johanna and Stefan Quandt each own about 17 per cent of the company's shares, while Susanne Klatten has about 13 per cent. **Reuters, Frankfurt**

TUNISIA

Cimpor acquires Jbel Oust

Cimpor, Portugal's biggest cement group, has acquired 100 per cent of Société des Ciments de Jbel Oust, a Tunisian cement company with production capacity of 1.2m tonnes a year, for Es38.2bn ($213m). The plant, which accounts for 22 per cent of cement sales in Tunisia, increases Cimpor's total capacity to 12.5m tonnes and is forecast to represent 7.5 per cent of total sales and 4 per cent of operating profits. **Peter Wise, Lisbon**

ROM TELECOM

SBC pulls out of bidding

The Romanian government's efforts to privatise Rom Telecom suffered a further setback yesterday with the announcement by SBC Communications of the US that it was pulling out of the bidding for a strategic shareholding in the state-owned telephone operator.

SBC's withdrawal follows similar action last week by KPN, the Dutch telecoms group, and leaves Romania with only two prospective bidders – Telecom Italia and OTE, the Greek telecoms group. SBC had been negotiating for months to join a bidding consortium with OTE, but said it was pulling out after making "a comprehensive analysis of the opportunity". Final binding offers to purchase a 35 per cent stake in Rom Telecom are to be submitted by the end of October. Goldman Sachs is advising the Romanian government. **Kevin Done, East Europe Correspondent**

GERMANY

Preussag refocus pays off

Preussag, the German industrial and trading group, yesterday announced a 50 per cent increase in operating profits at the nine-month stage, to DM522m ($298m). Michael Frenzel, chairman, said the strong growth represented the first benefits from the decision to refocus from heavy, metal-based activities towards service businesses, such as travel and tourism. He expected the trend to continue through the fourth quarter, which ends on September 30.

Nine-month sales were up 5 per cent at DM18.9bn, while pre-tax profits more than doubled to DM846m, boosted by the inclusion of DM324m from the sale earlier this year of the company's steel-making business. Preussag said tourism and logistics was the biggest contributor to profits. Profits at the energy and raw materials business were described as satisfactory.
Frederick Stüdemann, Berlin

SOUTH AFRICA

Gencor chairman resigns

Brian Gilbertson, who masterminded the restructuring of Gencor, the former South African conglomerate, yesterday announced his resignation as chairman of both Gencor and Gold Fields Ltd to devote his attention to Billiton, the London-based metals group spun off from Gencor last year. Michael McMahon will take over as executive chairman of Gencor, now an investment holding company focused on precious metals. **Victor Mallet, Johannesburg**

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OIL EXPLORATION COMPANY TO REIN IN ACTIVITIES

Low oil price and write-offs hit Enterprise

By Robert Corzine

Enterprise Oil, Britain's biggest independent oil explorer, yesterday reported an 85 per cent collapse in first half, pre-exceptional net profits to £13m ($20m) as a result of low oil prices and heavy exploration write-offs.

An exceptional gain and one-off payment totalling £53m boosted net profits after exceptions to £45m - compared with £80m last time. But investors reacted badly to a set of results that Graham Hearne, chairman, admitted were "disappointing".

The decline was also prompted by the company's warning that the present dividend was unsustainable.

Pierre Jungels, chief executive, said the company was taking action across the board to make itself more resilient to a prolonged period in which oil prices might stay below $15 a barrel.

The main actions being considered include a sharp reduction in exploration expenditure, from £180m this year with an expected write-off of 60 per cent, to £125m next year with a projected write-off of 60-70 per cent.

Enterprise has the second highest exploration spend per barrel of oil produced in the independent sector, with only Anadarko of the US higher.

The company expects to rein in exploration activities in Asia, Latin America and Eastern Europe, and concentrate instead on its core areas of the UK, Norway, Italy and the US Gulf of Mexico.

It hopes to shave 30p off its $5.83 average cost of production through "self-help" measures, but Mr Jungels said reductions on the order of 10 per cent would require changes to the company's reserve base. It also depended on industry-wide efficiency initiatives in the North Sea.

He said the situation was so severe that companies are on the point of appealing to the UK and other governments to relax some of their exploration commitments.

Although Enterprise yesterday confirmed that it is maintaining the interim dividend at 6.9p a share, Mr Jungels declined to comment on how big a cut may be in the offing next March.

Mr Jungels insisted that Enterprise is in better fundamental shape than some of its competitors. He said Enterprise wanted to assure investors that it was taking actions that would lead to sustained growth even if oil prices stayed below $15 a barrel for the next three to four years.

He said a recent asset review disclosed that all existing fields contribute to earnings even at a $12 a barrel oil price, while all new projects show an internal rate of return above 15 per cent with crude prices between $12-$13 a barrel, the level at which crude prices have been fluctuating in recent weeks.

National Express enters US bus market

Phil White

By Jonathan Ford

National Express, the public transport operator, yesterday made its first move into the US bus market with the acquisition of Crabtree-Harmon, an operator of school bus services in Midwestern states, for up to $37.5m including assumed debt.

Crabtree-Harmon is the seventh largest school bus operator in the US, with 1,200 vehicles and 82 contracts to run services in Missouri, Kansas, Iowa, Oklahoma, Utah and Colorado. Last year it made pre-tax profits of $1.5m on sales of $40m.

It is National Express' second deal in the US. In April it was named as preferred bidder for Stewart airport near New York. Since last year the group has been seeking to enter the US school bus market, which it regards as immature and fragmented. There are about 430,000 school buses in service in the US serving 23.5m children, or 55 per cent of pupils. Only 30 per cent of the bus services are privately run, although that proportion is growing. The private industry remains highly fragmented.

Prior to the deal with Crabtree-Harmon, National Express was in talks to buy Atlantic Express, the third biggest operator. However, those broke down earlier this year. In June, Atlantic Express launched a $75m legal action against the group, alleging misuse of confidential information and that National Express had impeded its attempts to buy Crabtree-Harmon.

Atlantic Express refused to comment yesterday, other than to say it was proceeding with its action. National Express said the two sides were exchanging information and it would contest the action vigorously.

Phil White, chief executive of National Express, said the group chose Crabtree-Harmon because of its good reputation for service.

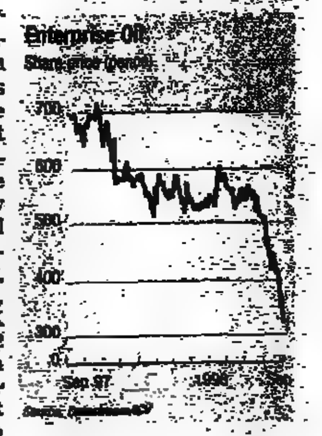
He said that Crabtree-Harmon, together with Stewart airport, would provide a "platform for further growth in the US".

The group is looking at further acquisitions in the school bus sector.

National Express is paying an initial $14.5m, with deferred payments of up to $4.5m dependent upon profits in the next two years. It is also assuming debt amounting to $18.5m at the end of June. Crabtree-Harmon will continue to be run by its present management.

COMMENT

Enterprise Oil



It is no surprise to see Enterprise Oil blaming its plummeting earnings on extremely difficult conditions in its industry. As oil price forecasts for 1998-2000 drift downwards on Opec backsliding and weak oil demand, the hoped-for second half rally towards $18-$20 per barrel looks a lost cause. Exploration and production stocks, meanwhile, have languished, underperforming the UK market by 51 per cent over 12 months. And even though most are trading at substantial discounts to net asset values, predators appear to be holding out for signs of life in the oil price before pouncing.

Enterprise's results will only have deepened the gloom. Pierre Jungels, chief executive, prides himself on being first to have spotted warning signs for the sector. But he clearly failed to follow through with a cost-slashing programme to mitigate the impact of today's $12-$13 a barrel world. Excluding exceptional items, an earnings fall of 85 per cent is poor even by the standards of the sector. True, Enterprise's average realised oil price fell 33 per cent, but countervailing moves to reduce costs have been inadequate.

At a 20 per cent discount to net asset value – after yesterday's 12 per cent share price fall – Enterprise should be supported by a high-quality asset base and belated cost-saving measures. But rapid earnings recovery seems unlikely until the oil price starts to rise.

Shell/Texaco

Shell's plan to forge a European downstream alliance with Texaco makes good sense. Although the stock market is looking for the next mega-merger, Shell's regional joint ventures are also a valid way to create shareholder value. Intense competition, overcapacity and the high cost of environmental compliance have depressed refining and retailing returns and increased the need for rationalisation. While not on the same scale as BP/Mobil's downstream venture or a similar pooling with Texaco by Shell in the US, this deal's initial savings target of $200m is a decent start. With Shell firmly in the driving seat – it will own 88 per cent of the merged operation – there should be no problem of control or blurred lines of accountability. As this deal does little for Shell in core European markets such as France, Germany and Italy, this will not be its last such move.

RESULTS

	Period	Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Abbot	6 mths to June 30	89.9	(72.7)	8.62	(7.04)	4.3†	(3.5)	1	Nov 6	0.8	-	2.6
Amec	6 mths to June 30	1,722	(1,514)	22.6	(40.2♥)	4.9	(11)	2.1	Jan 4	1.75	-	5
Avonside	6 mths to June 30	41.4	(40.2)	1.74	(1.07)	2.8	(1.77)	0.75	Nov 30	0.5	-	1.5
Boosey & Hawkes	6 mths to June 30	43.7	(44.1)	1.25♠	(1.76♠)	4.29	(5.8)	2.28	Oct 14	2.17	-	10
Brandon Hire	6 mths to June 30	13.1	(11)	0.021	(0.895)	0.1†	(3.1)	1.2	Oct 16	1.1	-	[illegible]
Burford	6 mths to June 30	21.9■	(15.9■)	11.8	(7.62)	2.14	(1.44)	1.15	Oct 2	1.05	-	2.3
Caird	6 mths to June 30	10	(10.3)	1.51	(2.05♥)	30.16†	(58.75)	7.5	Nov 12	5	-	12
Cattles	6 mths to June 30	223.3	(165.3)	20.7	(32.5♥)	10.4	(16.3)	3.9	Nov 3	3.25	-	9.8
Chorion Φ	6 mths to June 30	5.14	(6.61)	0.621	(0.465L)	0.12†	(0.17L)	-	-	-	-	-
Church	6 mths to June 30	38.2	(38.3)	1.32	(1.37)	9.8	(8.4)	3.8	Oct 26	3.5	-	17
Churchill China	6 mths to June 30	25.5	(28.3)	1.02	(2.97)	6.8	(19.3)	3	Oct 15	4.9	-	14.3
Clubhaus	6 mths to June 30	10.7	(7.02)	3.4	(1.42)	2.7	(2)	-	-	-	-	-
Clydeport	6 mths to June 30	12.4	(10.3)	5.08	(4.18)	9.5	(10.13)	2	Oct 9	1.725	-	5.525
DCS	6 mths to June 30	46.5	(23.7)	3.05	(2.04)	9.34	(6.48)	1.25	Nov 4	1	-	2.25
Delphi	6 mths to June 30	162.2	(133.4)	2.12♠	(7.02)	4.91†	(16.65)	2.65	Nov 20	2.4	-	6.4
Dialog	6 mths to June 30	88.8	(14)	6.99♥	(2.01)	4.1†	(0.9)	-	-	-	-	-
Eidos	3 mths to June 30☆	25.8	(9.38)	2.28L	(8.61L)	8.3L	(37.6L)	-	-	-	-	-
Enterprise Oil	6 mths to June 30	320.8	(480)	47.6♥	(148.3)	5.4	(14.6)	6.9大	Nov 2	6.9	-	17.4
Estates & General	6 mths to June 30	3.89	(6.14)	0.604	(1.13♥)	2.1	(4.1)	0.5	Oct 9	0.3	-	0.6
Evans Halshaw	6 mths to June 30	410.4	(448.8)	8.12	(8.11)	17.1	(17.1)	5.5	Oct 16	5.5	-	17
Finelist	Yr to June 30	380.1	(228.9)	28.6	(18.5)	24.6†	(22.9)	6.2	Oct 26	5.45	8.9	7.85
Friendly Hotels	24 wks to June 14*	30.8	(24.2)	9.54♥	(1.6♥)	10.3	(3.4)	2.3	Jan 8	2.2	-	5.9
Grafton ♣	6 mths to June 30	154.3	(116.8)	9.12♠	(7.11)	47.8	(37.7)	10.5	Sept 25	8.5	-	22.5
IAF	Yr to June 30	13.7	(8.65)	3.6	(1.38♠)	16.41	(6.98)	4.95	Nov 23	4.5	7.45	7
Isotron	Yr to June 30	13.4	(11.9)	5.4	(4.55)	32.3	(25.5)	4.55	Nov 11	4.14	8.86	6.35
Marchpole	6 mths to July 4	21.3	(21.2)	2.36	(4.87)	1.3	(1.8)	0.9	Oct 30	-	-	-
Marley	6 mths to June 30	348.9	(348.2)	26.1♠	(24.5)	5.5	(5)	2.1	Oct 10	2.1	-	5.4
Meggitt	6 mths to June 30	137.6	(131.2)	17.7	(13.6)	5.1	(4.1)	1.62	Dec 4	1.5	-	4.7
Molins	6 mths to June 30	101.4	(125.4)	11.3L♠	(7.7L♠)	43L	(18.2L)	6.5	Oct 23	6.5	-	15
Norish ♣	6 mths to June 30	4.86	(4.1)	1.03	(0.884)	5.4	(7.1)	1	Oct 7	1	-	4
Pittards	6 mths to June 30	39.2	(53.4)	0.719L	(2.1)	3.7L	(7)	1	Nov 2	1	-	3.5
Plant & General	6 mths to June 30	26.4	(28.8)	1.6	(0.879)	1.9†	(1.3)	-	-	-	-	-
Prestbury Φ	6 mths to June 30◊	3.4■	(-)	0.933♠	(0.113)	0.02†	(0.06)	-	-	-	-	-
Senior Eng	6 mths to June 30	254.9	(239.5)	24.3	(21♥)	5.75	(5.04)	1.77大	Nov 27	1.6大	-	4.24大
Slough Estates	6 mths to June 30	111.8	(138.2)	49.6	(60.5♥)	8.6	(8.5)	4.125大	#	3.4	-	9.525大大
Swallowfield	24 wks to June 20	23.1	(20)	0.524	(1.46)	2.8	(7.2)	2.2	Oct 30	3.3	-	8
Wembley	6 mths to June 30	60	(56.1)	13.1	(2.99L♠)	16.5	(10.3L)	2	Oct 30	1	-	3
Wickes	6 mths to June 30	267.9	(291)	11.5	(14.7L♠)	14.6	(19.8L)	2	Oct 16	nil	-	2
Wilson (Connolly)	6 mths to June 30	148.1	(119.3)	14.3	(10.4)	5	(3.5)	1.6	Oct 23	1.5	-	5.5‡

Investment Trusts	Period	NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Aim	6 mths to July 31	112.5	(108.1◊)	0.306	(0.23)	0.7	(0.53)	-	-	-	-	0.7

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ■Rental income. ΦAim stock. ★Comparatives restated. 大Foreign income dividend. 大大Includes FID element. *Comparatives for 25 weeks. ♣Irish currency. ☆Comparatives for four months. #Already paid. ‡Excludes special. ◊At January 31.

Restaurants and pubs hit by fall in food sales

By John Willman

Britain's pub and restaurant groups are expected to report a downturn in trading conditions later this month, following a sharp fall in food sales over the summer.

Bad weather, the impact of the strong pound on tourism and a decline in consumer confidence has led to a 9.4 per cent fall in food sales in pubs in the three months to August 4 compared with the same period last year. Sales in pubs and restaurants combined are down 7.6 per cent over the same period, according to Taylor Nelson Sofres, the market research group.

The news comes after a period during which investment in managed pubs has been more than £1bn ($1.65bn) a year, much of it to increase high-margin food capacity in anticipation of continuing growth in eating out.

Concern over trading conditions in pubs and restaurants led to profit downgrades yesterday for Whitbread, the brewing and hotels group, from two London stockbrokers. Goldman Sachs reduced its full-year pre-tax profit forecast to the end of February from £395m to £382m while Lehman Brothers cut its forecast from £388m to £372m. Whitbread shares fell 17p to 720p.

In mid-August Allied Domecq, which has more than 2,000 managed pubs, warned that poor weather had hit pub sales, with a slowdown in the growth of food sales. Last week, Scottish & Newcastle, the UK's largest brewer, warned of more difficult trading in its 2,600 pubs.

Pub operators due to issue trading statements later this month include Bass, Greenalls and Wolverhampton & Dudley.

Some smaller regional groups issued warnings earlier in the year.

Thistle sells 30 hotels to Pamco

By Scheherazade Daneshkhu

Thistle Hotels is expected to announce at its interim results next week plans for a share buy-back of up to £200m ($330m). It will be partially financed by the cash sale yesterday of 30 hotels for £66m to Pamco, a subsidiary of Lehman Brothers, the US investment bank.

The mostly small, provincial hotels had a book value of £93m and made profits last year of £5.7m. They will be managed by Peel Hotels, the Aim-listed hotels company established by Robert Peel, Thistle's former chief executive. Lehman is believed to have outbid Menzies Hotels, a 21-hotel chain which abandoned a market flotation this year.

Thistle came under pressure to improve its performance from Brierley Investments, the New Zealand-based group, which holds a 26 per cent stake. Bid plans to sell Thistle were abandoned last month, after Nomura International, the Japanese investment bank lowered its offer for the group.

Thistle is considering increasing its debt and selling more hotels in order to return cash to shareholders. It has now raised £79m in hotel sales this year.

A theme of putting companies together in bite-sized pieces

Part of a co-operative trend sweeping the oil world: Robert Corzine assesses the latest link-up, between Shell and Texaco

The proposed European refining and marketing joint venture between Royal Dutch/Shell and Texaco of the US is the latest example of a co-operative trend that has swept the oil world in recent years.

It also reflects Shell's strategy of dealing with specific problems, such as its poorly performing European downstream interests, with solutions tailored to individual regions or market segments.

Yesterday's deal will result in the creation of a joint venture that will be 88 per cent owned by Shell, with Texaco having a 12 per cent stake. It will cover 19 refineries – 17 of which are already owned by Shell – and include almost 16,000 retail outlets across Europe, 12,954 of which are now controlled by Shell.

In the aftermath of last month's takeover of Amoco of the US by British Petroleum, there has been a tendency to see any sign of incipient co-operation among leading oil companies as a precursor to a possible merger. But analysts point out that the trend towards regional co-operation – especially in areas such as refining and marketing, where capital requirements are generally large while returns can all too often be measured in single digits – is well established.

"Such strategies are not headline-grabbing like full mergers," said Paul Spedding, oil analyst at Dresdner Kleinwort Benson in London, yesterday. "But in aggregate they can be very effective."

Shell has already placed all its US downstream assets in two joint ventures, both of which include Texaco. It recently announced a similar arrangement in Australia with Mobil of the US.

Shell's preference for regional solutions as a way to bolster returns in poorly-performing businesses is a theme that has been heavily promoted by Mark Moody Stuart, chairman of Shell's committee of managing directors: "It may be much better and easier to put companies together in bite-sized pieces," he said recently.

Yesterday's deal, however, is unlikely to be the last that Shell does in Europe. Shell executives say they want to be number one or two in those markets in which they choose to operate, or have a minimum 20 per cent market share. Figures compiled by Wood Mackenzie, the oil industry consultants, show that even after yesterday's announcement Shell still has small shares of the retail petrol market in some of Europe's biggest countries, such as Spain (3.9 per cent), France (7 per cent) and Italy (7.1 per cent).

This week Shell said it had held talks with other companies as well as Texaco. But some European-based companies may not be as keen as Texaco to submerge their interests in what will clearly be a Shell-dominated group.

"Shell would not be the right partner for us," said Thierry Desmarest, chairman of Total of France. "There is simply too big a difference in size. Besides, we want to maintain a downstream presence in Europe, and our downstream assets are performing quite well."

The strict limits imposed on the Shell-Texaco link disappointed some analysts, who questioned the exclusion of several high growth or high margin business segments. Products such as liquefied petroleum gas and aviation fuels are not covered by the agreement.

The relatively small size of Texaco's European downstream network and the exclusion of such product lines "means it won't really transform the economics of Shell's business," said Jeremy Hudson, European oil analyst at brokers Salomon Smith Barney. The expected annual cost savings of $200m were not enough to transform Shell's European downstream returns, he said.

Some analysts also questioned the value of maintaining two brands in Europe. A similar arrangement is in place in the US joint venture, and Mr Moody Stuart has said "it is not a bad idea to have multiple brands".

However, he noted that in some cases where Shell has acquired retail chains from other companies, "we've lost some value in rebranding".

Shell also seems prepared for regulatory problems. The deal raises possible competition concerns in several countries. Shell will have to dispose of filling stations in the Netherlands. Disposals might also have to be made in Ireland, Luxembourg and Belgium.

The big question, say analysts, is whether Shell, which is the only international oil company with a presence in all 15 member states of the EU, can use such disposals in an asset swap to secure meaningful positions in some of those EU markets where it is lagging far behind. If it cannot, then withdrawal from some markets may soon follow.

هكذا من الأصل

MANAGEMENT

PROFILE JOHN WESTON, BRITISH AEROSPACE

Direct approach backs vision of integration

Alexander Nicoll on the former engineer who wants a unified European company to compete with merged US defence groups

John Weston is negotiating the very existence of British Aerospace – again. This time, however, the circumstances are very different from the aircraft maker's close encounter with bankruptcy in 1992.

Then, Mr Weston was a key member of the management team which fought for the company's survival in the face of falling orders for defence equipment, and with regional aircraft and car businesses making huge holes in the accounts.

"We were pretty close to having the company in the hands of the banks," Mr Weston says. "A lot of people in the company don't realise how close it was to the edge."

Next week a very different BAe will be on display at Farnborough as the UK's biennial air show takes place on the airfield next to its corporate headquarters in Hampshire. With a £22bn ($36bn) order book and healthy profits, it is the pre-eminent European aerospace group. Sir Richard Evans, who this year stepped back from day-to-day management to succeed Bob Bauman as chairman, and Mr Weston, who took over as chief executive, will be the people everybody wants to talk to.

In spite of the remarkable recovery, Mr Weston is keenly aware the longer-term security of BAe cannot be taken for granted.

Airbus, in which BAe has a 20 per cent interest, has seen a surge in orders. On the military side, BAe is building Eurofighter. Nimrod maritime patrol aircraft and Hawk trainers. Tornados are still being made for Saudi Arabia and upgraded for Britain's Royal Air Force.

But while BAe and its

> **'Quite often, people set tougher targets for themselves than they would accept from managers'**

European counterparts have been coping separately with the downturn in military orders since the end of the cold war, US defence companies have been getting together. A series of mergers and acquisitions has left three companies – Boeing, Lockheed Martin and Raytheon – each far bigger than any European rival. "Their size does give them a big opportunity to get the cost out," Mr Weston says.

He has a vision of how Europe should deal with this challenge: by creating a unified aerospace and defence company. But this could not be done simply by the strong acquiring the weak, as in the US. To be successful, "Euroco" – as BAe dubbed it – would have to retain the confidence of the governments which are the main customers of each of the companies which might be absorbed into it. Because of the highly political nature of defence procurement, each country must feel it would benefit from Euroco's success – otherwise there would be no reason to favour it over the Americans.

It is Mr Weston's delicate mission to pilot BAe into what would be a uniquely structured European company on terms which convince shareholders they would be getting something better for their BAe shares. BAe in its present form, as well as Aerospatiale of France, Daimler-Benz Aerospace (Dasa) of Germany and perhaps other companies, would disappear and become part of the new entity.

The vision might seem no more than wishful thinking. In spite of strong governmental support, it is certainly slow in coming to pass. But Mr Weston's straightforward, step-by-step approach gives confidence it might actually happen.

An engineer, Mr Weston, 47, joined what was then British Aircraft Corporation at the age of 18 as an undergraduate apprentice before winning a first class degree at Cambridge University. He spent most of the 1980s closely involved with BAe's sales of aircraft to Saudi Arabia, and took charge of the defence side just as the company reached its 1992 nadir.

Mr Weston describes as "knocking off problems" a process which has not only returned the company to prosperity but also revolutionised the way in which it operates.

It was not just a matter of stopping the financial haemorrhage from regional aircraft, selling the Rover car business and winning another order from Saudi Arabia. BAe had to be sure that if it won new orders, they would be sufficiently profitable. That meant a drastic improvement in productivity.

Within BAe Mr Weston is given much of the credit for initiating changes in work practices which went alongside thousands of redundancies and the closure of factories including one at Preston in BAe's Lancashire heartland.

"We had to get people away from the idea that they were working for a big rich company and that their prosperity depended on how well the trade unions did in negotiations," Mr Weston says.

John Weston: 'A lot of people in the company don't realise how close it was to the edge'

BAe's strategy was to communicate directly with its workforce and to begin changes within individual businesses. This has led to a company-wide empowering of staff, a huge improvement in relations with unions, and – helped by computer technology – big changes in aircraft design and manufacturing processes.

"We took out layers of management and introduced much more participation in the business planning process," Mr Weston says. "In the best business units, more than half the people are involved. Quite often, people set tougher targets for themselves than they would accept from managers."

The change in culture is applauded by union leaders and by workers who say they have been given responsibility to think how best to do their jobs.

John Deans, convener of shop-floor unions at the Warton plant in Lancashire, now takes part in BAe's marketing campaigns. He says of the days of poor industrial relations: "We had power then, but what did all those walk-outs achieve? At the end of the day, unless we get orders, and there are aircraft waiting to take off, I won't be representing anyone." Mr Weston says: "People now realise that they are masters of their own destiny."

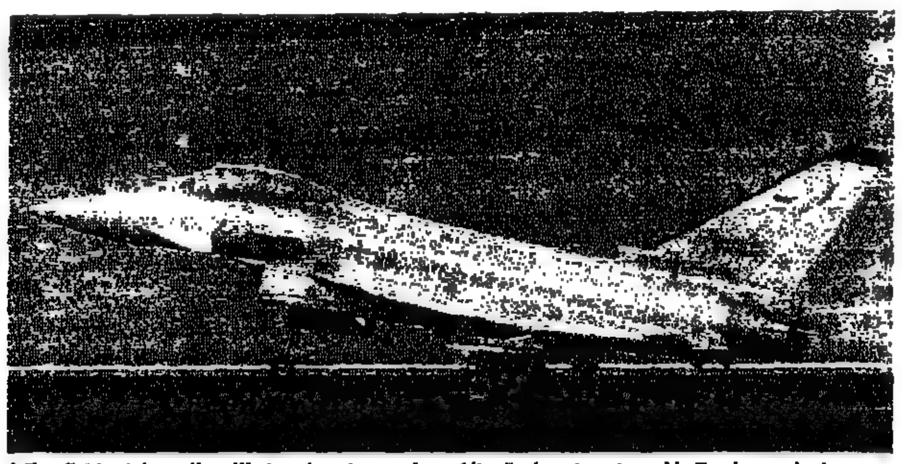
Such a transformation gives cause for confidence that BAe can proceed to the next step: integration with other European companies. This too presents seemingly insurmountable obstacles, such as the French state's large holding in its defence industry.

For BAe, it is unacceptable for any state to have a stake in the future European group. It fears governmental influence would prevent the company from being run on commercial lines and limit benefits to be gained from rationalisation. The determination of BAe and Dasa to press ahead – apparently with or without the French – has already paid off with France's announcement in July that it would divest just over half of Aerospatiale.

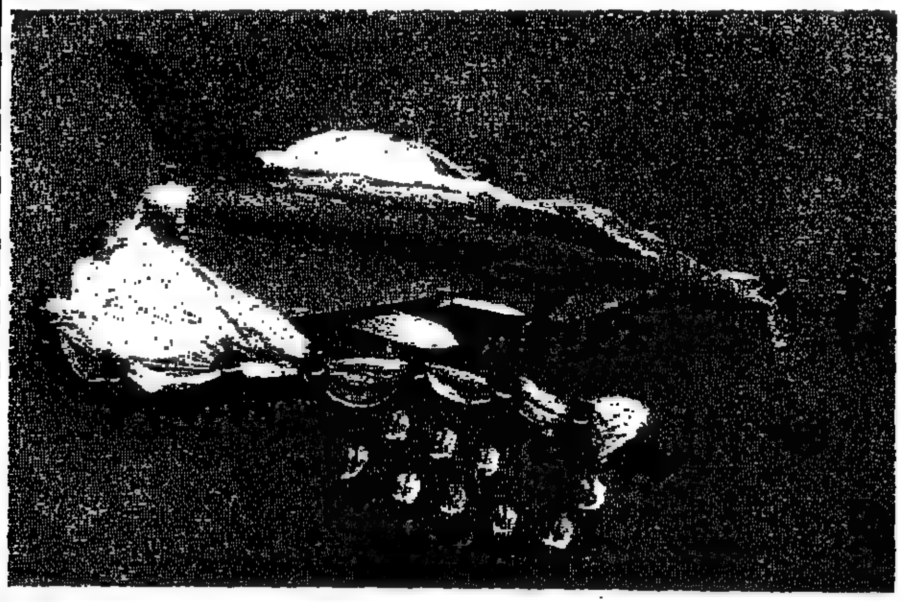
This is not enough for Mr Weston, who says: "They've got another big step to take, which would be the privatisation of the second half."

His approach is epitomised by the steady development of closer ties with companies such as Saab of Sweden, where BAe started with a technical assistance agreement and emerged this year with a 35 per cent stake.

"The next steps will be determined by the art of the possible," he says. "All things will be done step-by-step and it would be a brave man who could get his crystal ball out and think what those steps are going to be."



A Eurofighter takes off on Wednesday at a preview of its display at next week's Farnborough air show. It was announced that the aircraft would be marketed outside Britain, Germany, Spain and Italy – the partner nations in the project – as the Typhoon. A model displaying the new name was unveiled Photographs: Ashley Ashwood



هكذا من الاصل

EQUITIES

Europe back on downward path

EUROPEAN OVERVIEW

By Martin Dickson, Financial Editor

Trans-European equity indices fell sharply yesterday after Wednesday's rally as early losses on Wall Street, a falling rouble and fears that Russian contagion will infect other emerging markets cast a shadow over bourses.

The FTSE Eurotop 100 index closed down 61.86 at 2,464.58 while the broader FTSE Eurotop 300 index ended at 1,068.08, down 29.06. Bonds rallied on safe-haven buying, with gilts outperforming. The FTSE Ebloc 100 index, which tracks the largest companies in founder members of European monetary union, dropped 21.34 points to 891.51.

The decline was broadly based, though cyclical sectors and banking stocks fared particularly badly. Banks fell 5.2 per cent, with Deutsche Bank dropping Ecu 2.9 to Ecu 54.42, Barclays down Ecu 1.4 at Ecu 17.57, and BNP down Ecu 3.4 at Ecu 53.38.

Among cyclicals, paper and packaging dipped 3.34 per cent, while chemicals were down 3.5 per cent and automobiles 4.85 per cent.

A weakening dollar dealt a further blow to German exporters such as Volkswagen, down Ecu 4.7 at Ecu 62.52, and BMW, which lost Ecu 39.7 to Ecu 610.22.

Oil exploration and production dropped 8.73 per cent, with Enterprise Oil falling Ecu 0.7 to Ecu 4.78 on concerns about its dividend policy and possible acquisition plans.

Sectors suffering the least included classic defensive areas such as food retailing, down 0.72 per cent, pharmaceuticals, off 0.81 per cent, and utilities, which dropped 0.61 per cent.

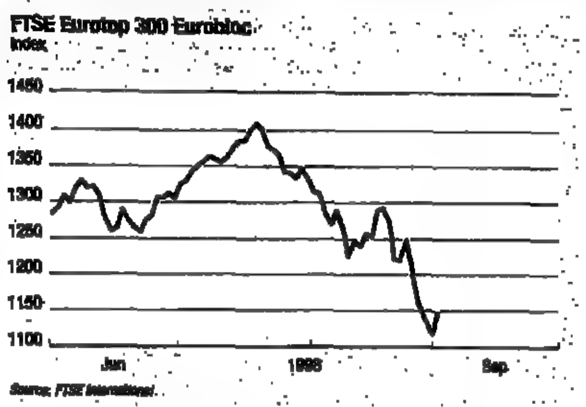
The telecoms sector fell 3.22 per cent, with France Telecom down Ecu 3.5 at Ecu 64.99 and Telefónica off Ecu 0.9 at Ecu 34.02. Deutsche Telecom rose Ecu 0.6 to Ecu 25.56.

Meanwhile, a report from Gary Dugan, European analyst at J.P. Morgan, said there was still further downside risk to European equity markets.

He argued that corporate earning forecasts were expected to be cut and the equity risk premium would rise in all markets.

He believed there had been a "structural shift – not just a transitory one – in the outlook for European markets".

FTSE Eurotop 300 Eurobloc
Index



Source: FTSE International

THREE MONTH EURO FUTURES (LIFFE)

THREE MONTH EURO OPTIONS (LIFFE)

FTSE EUROTOP 100 INDEX FUTURES (LIFFE)

EURO STYLE FTSE EUROTOP 100 INDEX OPTION (NEX)

FTSE Actuaries Share Indices — European Series

September 03

National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Ecu)
FTSE Eurotop 300	1068.08	-2.65	-29.06	2.66	22.20	1096.38
FTSE Eurotop 100	2464.58	-2.45	-61.86	2.67	32.84	880.79
FTSE Ebloc 100	891.51	-2.34	-21.34	2.25	[illegible]	903.20
FTSE Eurotop 300 Regions						
Eurobloc	1121.88	-2.34	-26.90	2.26	19.73	1143.90
UK	963.35	-2.92	-28.53	3.38	26.79	1025.64
Europe Ex-Eurobloc	1024.34	-2.97	-31.32	3.10	23.62	1058.11
Europe Ex-UK	1116.87	-2.62	-28.85	2.32	18.80	1136.24
FTSE Eurotop Industry Sectors						
RESOURCES	784.48	-0.32	-2.51	3.67	21.81	813.18
Extractive Industries	654.31	-0.48	-3.17	4.47	0.00	654.31
Oil, Integrated	759.91	-0.18	-1.35	3.89	15.08	771.98
Oil, Exploration & Prod	575.11	-8.73	-55.08	4.20	0.00	575.11
GENERAL INDUSTRIES	992.77	-2.90	-29.68	2.85	19.50	1011.87
Construction	901.78	-1.85	-17.04	2.82	11.09	912.27
Building Matls & Merchs	821.19	-2.51	-21.16	3.22	7.66	826.91
Chemicals	811.28	-3.50	-29.40	2.98	16.67	825.00
Diversified Industrials	904.78	-0.68	-6.20	2.42	17.48	920.30
Electronic & Elect Equip	853.23	-3.06	-26.91	1.99	4.89	857.38
Engineering	829.02	-2.41	-20.49	4.07	9.67	835.77
Paper, Pckg & Printing	743.03	-3.34	-25.64	3.17	1.21	743.95
CONSUMER GOODS	1069.62	-1.61	-17.54	1.78	16.04	1095.42
Automobiles	877.38	-4.85	-44.69	2.98	10.25	885.49
Alcoholic Beverages	835.39	-3.08	-26.55	2.82	5.82	840.40
Food Producers	885.38	-2.63	-23.92	1.82	9.37	893.42
Household Goods & Texts	980.70	-2.40	-24.08	2.00	7.01	987.11
Healthcare	871.12	-4.92	-45.11	1.39	9.62	879.96
Pharmaceuticals	947.19	-0.81	-7.72	1.38	4.27	951.33
Tobacco	974.84	-1.76	-17.47	4.36	1.81	976.67
SERVICES	1119.36	-2.33	-26.72	2.38	20.79	1148.25
Distribution	766.87	-3.05	-24.14	2.89	11.37	776.48
Leisure & Hotels	743.66	-1.43	-10.77	3.41	10.42	751.54
Media	925.54	-1.33	-12.48	2.54	9.63	934.38
Retailers, Food	1027.57	-0.72	-7.48	2.93	10.70	1088.78
Retailers, General	995.10	-2.31	-23.57	3.49	18.53	1012.33
Telecommunications	1013.48	-3.22	-33.75	1.98	13.02	1025.78
Brewing, Pubs & Rests	744.18	-1.75	-13.24	3.70	14.20	755.51
Support Services	910.83	-3.08	-28.77	1.95	8.84	917.08
Transport	908.15	-1.72	-15.84	2.70	11.78	918.31
Information Technology	1089.92	-1.59	-17.68	0.37	2.29	1102.42
UTILITIES	1319.80	-0.61	-8.07	3.37	53.32	1391.34
Electricity	1004.86	-0.05	-0.53	3.51	28.22	1031.70
Gas Distribution	993.43	-1.14	-11.51	1.86	84.81	1084.92
Water	1026.53	-2.55	-26.90	5.06	38.72	1065.74
FINANCIALS	1139.05	-4.24	-60.34	2.82	28.40	1167.44
Banks, Retail	785.99	-5.20	-43.12	3.75	12.52	798.04
Insurance	877.34	-2.79	-25.16	1.60	11.45	887.57
Life Insurance	1082.78	-2.88	-31.25	1.62	9.10	1061.80
Other Financial	831.11	-4.97	-43.46	2.45	14.05	842.85
Investment Companies	908.33	-1.51	-13.84	2.84	20.88	925.32
Property	781.73	-0.34	-2.67	3.47	16.01	798.09

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OTHER INDICES

FTSE EUROTOP 300

Name	Price (Ecu)	Chge +or-	Mkt cap Ecu(bn)	Vol (m)	Yld
[illegible]					

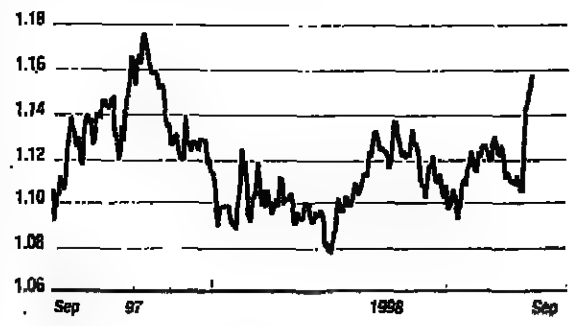
CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

Sep 03	Currency code	Closing mid point	Change on day	Change on day%	Change on week	Change week %
Europe						
Austria	ATS	14.061342	-0.0027	-0.02	-0.0005	+0.00
Belgium	BEF	41.221951	+0.0001	+0.00	-0.0047	-0.01
Czech Republic	CZK	35.723798	+0.2671	+0.75	-1.3072	-3.53
Denmark	DKK	7.610153	+0.0029	+0.04	+0.0003	+0.00
Finland	FIM	6.079315	[illegible]	-0.04	-0.0069	-0.11
France	FRF	6.699646	-0.0007	-0.01	-0.0008	-0.01
Germany	DEM	1.998317	-0.0004	-0.02	-0.0001	-0.01
Greece	GRD	344.438507	+2.8294	+0.83	-1.8972	-0.55
Hungary	HUF	256.847003	+1.9331	+0.76	+4.3795	+1.73
Ireland	IEP	0.786476	+0.0003	+0.04	+0.0001	+0.02
Italy	ITL	1973.981166	+0.5643	+0.03	+0.7085	+0.04
Luxembourg	LUF	41.221951	[illegible]	+0.00	-0.0047	-0.01
Netherlands	NLG	2.255813	+0.0003	+0.01	+0.0021	+0.09
Norway	NOK	8.956154	+0.1450	+1.65	-0.3080	-3.32
Poland	PLN	4.271513	+0.1331	+3.22	+0.0759	+1.81
Portugal	PTE	204.849507	+0.3213	+0.16	+0.0597	+0.03
Romania	ROL	10401.237500	+148.2831	+1.45	+536.8088	+5.44
Russia	RUB	20.627489	+6.3571	+44.55	+4.5968	+28.67
Slovakia	SKK	40.528380	+0.4342	+1.06	+0.9225	+2.33
Spain	ESP	169.562585	+0.0424	+0.02	-0.1200	-0.07
Sweden	SEK	9.150725	+0.0764	+0.84	-0.0850	-0.92
Switzerland	CHF	1.641740	-0.0048	-0.29	-0.0123	-0.74
United Kingdom	GBP	0.689283	+0.0056	+0.81	+0.0179	+2.66
ECU	ECU	1.014108	+0.0007	+0.07	+0.0036	+0.35
Americas						
Brazil	BRL	1.364891	+0.0212	+1.58	+0.0656	+5.05
Canada	CAD	1.783867	+0.0174	+0.98	+0.0355	+2.03
Mexico	MXN	11.724642	+0.3597	+3.17	+0.7253	+6.69
United States	USD	1.158848	+0.0172	+1.51	+0.0533	+4.82
Pacific/Middle East/Africa						
Australia	AUD	1.989244	+0.0419	+2.14	+0.0117	[illegible]
Hong Kong	HKD	8.979911	+0.1329	+1.50	+0.4123	+4.81
Japan	JPY	155.888192	-1.4680	-0.93	-1.5653	-1.18
Singapore	SGD	2.033198	+0.0451	+2.27	+0.0790	+3.99
South Africa	ZAR	7.199341	+0.1070	+1.51	-0.0919	-1.26

Source: FTSE International Ltd.This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying GDP weights to Euro "in" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends. Currency weightings as follows: DEM 0.3364, FRF 0.2217, ITL 0.1829, NLG 0.0577, BEF 0.0386, ESP 0.0848, IEP 0.0116, PTE 0.0155, ATS 0.0328, FIM 0.0187.

Synthetic Euro against the dollar
$ per euro



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

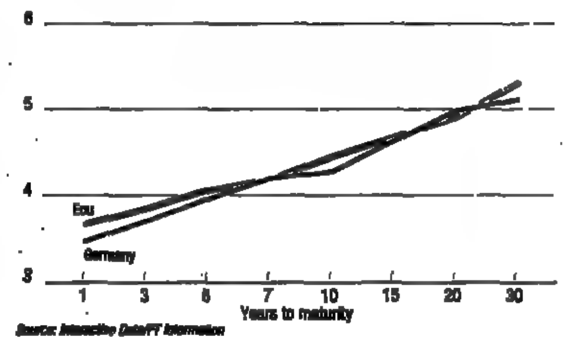
Bilateral conversion rates against the D-Mark

Sep 03	Fixed rate	Market rate	Diff bid v mid %	Week ago %	Forward rate	Forward Int rate	Diff Int rate v DEM
Austria	7.03552	7.0366	+0.02	+0.01	[illegible]	3.55	+0.03
Belgium	20.6255	20.6283	+0.01	+0.02	20.6277	3.51	-0.01
France	3.35386	3.3526	-0.04	[illegible]	3.353	3.56	+0.04
Finland	3.04001	3.0422	+0.07	+0.18	3.0423	3.53	+0.01
Ireland	0.402676	0.3986	-1.01	-1.04	0.4012	6.53	[illegible]
Italy	990.002	987.8219	-0.22	-0.26	992.0463	4.84	+1.32
Luxembourg	20.6255	20.6283	+0.01	[illegible]	20.6277	3.51	-0.01
Netherlands	1.12674	[illegible]	+0.19	+0.09	1.1284	3.38	-0.14
Portugal	102.505	102.511	+0.01	-0.03	102.7173	[illegible]	+0.62
Spain	85.0722	84.8927	-0.26	-0.19	85.061	4.28	+0.76
Germany	1		+0.00	+0.00		3.52	+0.00

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 2/3; forward rates are exchange rates to 31/12/98 interpolated from market quotes; forward interest rates are those implied by these forward exchange rates. Diff int rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31/12/98; DEM forward interest rate for 31/12/98 is calculated by interpolation between published BBA market fixings.

BONDS

Bond yield curve
Per cent (September 3 1998)



Source: Interactive Data/FT Information

GOVERNMENT BOND SPREADS vs ECU

Sep 03	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
"Ins"						
Austria	-0.03	+0.07	+0.17	+0.11	+0.19	+0.06
Belgium	+0.01	+0.04	+0.13	+0.11	+0.17	+0.06
Finland	-0.06	+0.16	[illegible]	+0.19	-0.25	-0.80
France	-0.12	-0.07	-0.04	-0.04	+0.02	-0.12
Germany	-0.23	-0.08	+0.01	-0.19	+0.03	-0.17
Ireland	+0.83	+0.03	+0.12	+0.18	+0.29	+0.51
Italy	+0.36	[illegible]	+0.32	+0.29	+0.31	+0.21
Luxembourg	+0.01	+0.04	+0.13	+0.11	+0.17	+0.06
Netherlands	-0.14	-0.02	+0.04	-0.05	+0.00	-0.11
Portugal	+0.16	+0.25	+0.24	+0.21	+0.53	+0.22
Spain	+0.00	+0.13	+0.23	[illegible]	+0.30	+0.26
"Outs"						
Denmark	+0.58	+0.54	+0.58	+0.40	+0.33	+0.50
Greece	+8.84	+5.32	+4.52	+3.88	+2.87	+2.33
Sweden	+0.85	+0.89	+0.89	+0.51	+0.50	+0.16
UK	+2.56	+1.84	+1.39	+0.81	-0.41	-0.15

Source: Interactive Data/FT Information. Table takes common convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

EUROZONE CORPORATE BONDS

Sep 03	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible issues								
Belgium (Kingdom of)	03/08	5.750	N/A	109.760	4.47	-0.05	-0.34	+0.04
France (Rep of)	04/08	5.250	N/A	106.610	4.38	-0.03	-0.34	-0.07
Italy (Rep of)	05/08	5.000	AA	[illegible]	4.61	-0.09	-0.20	+0.18
Portugal (Rep of)	06/08	5.375	AA-	105.090	4.59	-0.04	-0.25	+0.18
Euro issues								
Abbey Natl Treas Srv	02/03	4.875	AA	102.640	4.21	-0.01	-0.28	+0.21
Gen Electric Cap Crp	10/04	5.500	AAA	106.620	4.24	-0.03	-0.32	+0.18
Oest Kontrollbank	04/08	6.250	AAA	104.520	4.65	-0.02	[illegible]	+0.22
Cred Local de France	04/08	5.250	AA+	103.860	4.76	-0.08	-0.22	+0.33
Ecu issues								
Bayer Hypo & Wch Bk	07/01	5.000	AA-	102.334	4.11	+0.00	-0.28	+0.27
Cred Foncier France	03/04	[illegible]	A	[illegible]	[illegible]	-0.07	-0.42	+0.57
Euro Inv Bank	04/04	6.250	AAA	105.970	4.09	[illegible]	-0.35	[illegible]
ABN Amro Hldg. NV	04/07	6.375	AA-	[illegible]	4.84	-0.03	-0.22	+0.48

Source: Interactive Data/FT Information. London closing. Fungible bonds issued in tranches by Ecu "in" sovereigns and fungible into one big Euro issue 1/1/99; Euro issues are issued in the new currency.

EUROZONE CREDIT SPREADS vs ECU

Sep 03	S & P rating	Red date	Coupon	Currency code	Spread	Spread wk ago	Spread mth ago
KFW	AAA	01/08	5.000	DEM	+0.09	+0.22	+0.01
France Telecom	AA+	11/08	5.250	FRF	+0.25	+0.12	+0.13
Halifax	AA	07/07	5.625	DEM	+0.28	+0.15	+0.18
Ing Bank NV	AA-	01/08	5.500	NLG	+0.20	+0.17	+0.18
Bayer Hypo W Bk	AA-	02/02	6.750	ITL	+0.32	+0.37	+0.27
Cred Foncier	A	02/03	7.250	DEM	+0.56	+0.47	+0.31
Thomson-Brandt Int	A-	03/04	[illegible]	FRF	+0.42	+0.28	+0.24
Generale des Eaux	BBB+	03/04	5.250	FRF	+0.35	+0.20	+0.31
Bank of China	BBB	07/05	7.125	DEM	+4.62	+6.19	+0.59
Natl Bk of Hungary	BBB-	06/01	9.000	ATS	+1.27	+1.22	+0.68
Korea Dev Bank	BB+	11/02	5.625	FRF	+9.40	+8.64	+5.90
Argentina	BB	04/08	8.125	XEU	+7.22	+7.02	+3.22

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "in" currencies.

INTERNATIONAL CAPITAL MARKETS

Prices rebound as equity markets tumble

GOVERNMENT BONDS

By Jeremy Grant in London and John Labate in New York

Prices rebounded after two days of weakness as equity markets tumbled and worldwide economic concerns re-infected government fixed-income markets.

Weakness in the Russian rouble and Mexican peso, a slide in stock prices on Wall Street and Brazil, and the planned liquidation of a Japanese steel company, Toa Steel, provided a cocktail of woes for equity investors but saw investors rush back to the safe haven of government bonds.

"The [recent] gains were always going to be a bit vulnerable to renewed anxieties," said Steven Andrew, gilts strategist at Merrill Lynch.

Analysts said there was plenty of upside for bonds given that Russia's political crisis is far from reaching a conclusion.

US TREASURY prices were higher by early afternoon as equity markets plunged in early trading. The 30-year benchmark Treasury gained $\frac{7}{32}$ to $102\frac{21}{32}$, sending the yield lower to 5.321 per cent but prices were off morning highs.

Treasury bills were lower, but notes traded on the upside. Ten-year notes rose $\frac{7}{32}$ at $104\frac{7}{16}$, yielding 5.040 per cent, while two-year notes were up $\frac{1}{16}$ to $100\frac{13}{32}$, yielding 4.908 per cent.

"All eyes are on what the Standard & Poor's futures do," said Elliott Platt, director of economic research at Donaldson, Lufkin & Jenrette in New York. "The market seems to be taking a pause because the dollar has come off so much."

Friday sees the release of much anticipated employment data and analysts expect another strong report. However, they say the numbers will have to be adjusted to account for staff returning to work after the settlement of the strike at General Motors.

Most expect the rise in payroll employment to range between 350,000 and 400,000.

Stephen Hannah, chief economist at Industrial Bank of Japan in London, said the markets did not believe a reduction in interest rates was in the offing because the perception was that equity market weakness was helping to take the shine off the economy.

"There's a tendency to shift down the curve to longer maturities because people are getting a little bit nervous about assuming a Federal Reserve easing soon," he said.

UK GILTS were boosted by flight to quality buying, with the global focus so dominant that investors largely ignored domestic data showing service sector growth had slowed significantly.

The December 10-year future settled up 0.44 points at 112.29 in volume of 65,000 contracts traded. In the cash market, the yield spread between the benchmark gilt and bund narrowed by 3 basis points to 116 points.

The Chartered Institute of Purchasing and Supply said its business activity index fell to a seasonally adjusted 54.3 in August from 55.9 in July. Although a reading above 50 implies expansion, the figure was still the lowest growth rate for more than two years.

Analysts said this was unlikely to be enough to convince the Bank of England to move on interest rates.

GERMAN BUNDS benefited from weakness in German equities, with activity dominated by global stock weakness and the roll-over from the September into the December bund futures contract.

A Bundesbank decision to leave interest rates unchanged was expected and failed to move the market.

The December 10-year bund future settled up 0.60 at 112.67 points.

Austria launches E750m issue

INTERNATIONAL BONDS

By Vincent Boland

Highly-rated borrowers returned to the international bond markets yesterday with deals at prices that reflected the sharp spread-widening seen since the Russian collapse and investor demand for high-quality paper.

The **REPUBLIC OF AUSTRIA** launched a tightly-priced E750m five-year issue priced to yield five basis points less than the equivalent Austrian government bond, which market participants described as very tight in the current environment.

Bankers at ABN Amro, lead manager, noted however that the spread was 15 basis points wider than Austria's existing D-Mark issue, and 14 basis points wider than an existing guilder deal.

"Austria never comes cheap, and it looks cheap compared to some of the earlier issues," one banker said.

The issue is fungible with schilling-denominated government paper to create "a sizeable benchmark issue" of more than E4.5bn, the banker said, adding that there was no existing five-year sovereign benchmark in euros. The new bond was trading late yesterday at the reoffer spread of five basis points over the five-year BTAN.

FANNIE MAE reopened its five-year benchmark issue for the second time with a further $2bn tranche, bringing the total size of the April 2003 bond to $9bn, making it the biggest international bond in issue. The tranche was priced at 45 basis points over the US Treasury bond of August 2003.

The first tranche was launched in April at a spread of 18 basis points, and the second in early August at 27.75 basis points. Fannie Mae said yesterday's tranche would be the final reopening of the bonds.

A banker at Credit Suisse First Boston, joint lead manager with Lehman Brothers and J. P. Morgan, said the 45 basis points spread was in line with where the issue was trading in the secondary market. "All the very high-quality triple-A bonds have performed in line with what the swaps market has been doing relative to Treasuries," he said.

More than 50 per cent of the Fannie Mae issue was sold to international investors, with good Asian demand seen. The issue was launched and priced into investor demand for such paper.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Fannie Mae(a)+	2bn	5.75#	101.59R	Apr 2003	0.10R	+45(5¾Aug03)	CSFB/Lehman/JP Morgan
GECC‡	275	(b)	100.00	Sep 2001	0.14	-	Merrill Lynch International
EURO(S)(e)							
Republic of Austria(c)	750	4.30	101.06R	Jul 2003	0.25R	+5(4½Jul03)	ABN Amro
AUSTRALIAN DOLLARS							
GECC	100	5.875	101.185	Oct 2003	1.875	-	TD Securities
CANADIAN DOLLARS							
European Investment Bank	100	5.50	99.46R	Oct 2003	0.25R	+8(5¾-Sep03)	RBC DS Global Markets
FINNISH MARKKA							
Fennica No 3, Cls A1(d)‡	1.425bn	(d1.)	100.00	Nov 2054	0.228R	-	INGB/Leonia Corp Bank
Fennica No 3, Cls A2(d)‡	550	(d2.)	100.00	Nov 2054	0.228R	+29(-7yr)	INGB/Leonia Corp Bank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. +Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Fungible with $7bn. Plus accrued. b) 3-mth Libor flat. c) Fungible with Sch40bn upon Emu. Plus 69 days accrued. d) Secured on Finnish mortgages originated by Housing Fund of Finland. d1) 6-mth Helibor +19bp to May 04, then +75bp if not called. d2) 4.6% to Nov 05, then 6-mth Helibor +75bp if not called. d3) Class B notes of FM77m were privately placed. e) Payments in Ecu prior to Emu. Spread relates to French govt Ecu bonds. § Over interpolated yield. ¶ Long 1st coupon.

Casablanca shares buck market trend

By Roula Khalaf

While most Middle East markets have taken a beating in the emerging markets crisis, the Casablanca bourse's composite index has risen 30 per cent in dollar terms this year.

"It's like a greenhouse, with a lot of money inside and no alternative investments," said a London trader. Local brokers, however, say a correction is inevitable, as price/earnings ratios move out of line with earnings expectations.

The strength of the bourse has been fuelled by local buying, with interest rates too low and mutual funds growing phenomenally.

The Moroccan dirham is also not convertible for locals, which prevents investment abroad. Brokers say the rush of funds, while productive investment stagnates, has prompted hints of concern from King Hassan.

Some of the local money going into the bourse is being borrowed from banks, with three banks typically willing to lend up to 70 per cent of the stock purchase price. Analysts say the amounts are not significant but could prompt regulation to curb the practice.

Only 10 per cent of the bourse's nearly $15bn capitalisation is owned by foreign investors, half of whom are from the Arab world. But with a shortage of liquidity, international selling shares in the past week have found many local buyers.

"People have been calling us from the local market to ask for stock," said a London broker.

In an economy heavily dependent on agriculture, decent rainfall is promising more than 6 per cent real gross domestic product growth this year.

However, broker Upline Securities local predicts corporate earnings will rise 16 per cent in 1998, while the market's average prospective 1998 p/e ratio has reached 20.

NEWS DIGEST

UKRAINE

Debt restructuring seen as urgent by bankers

Ukraine's structural economic problems are so acute that it needs to press ahead urgently with a debt restructuring scheme, in spite of being close to clinching a $2.2bn loan package from the International Monetary Fund, bankers said yesterday. They also suggested a devaluation of the hryvnia, the local currency, looked probable – even with the release of a first tranche of IMF funds, expected to be about $250m.

Kiev last week unveiled the terms of a plan to restructure its domestic debt, in a move that mirrors Russia's efforts to save itself from financial collapse. It is a voluntary scheme and calls for investors to swap their T-bills for two-year paper with a variable coupon. Like Russia, the Ukrainian government faces a budget shortfall as interest payments and redemptions mount in the treasury bill market. The hryvnia has also taken a battering as the Russian rouble has plummeted, and foreign exchange reserves have dwindled to about $900m.

Total outstanding bills – known as OVDPs – amount to 11.9bn hryvnia ($5.2bn), of which 63 per cent is held by the central bank, 21 per cent by domestic banks and the rest by non-residents and foreign investors. The central bank said this week the debt conversion should cut redemptions this year to 900m-1bn hryvnia, but even with the release of the first tranche of the IMF funds, the government's financing gap will be more than $1bn this year.

"In Ukraine, privatisation has just not moved forward at all. There's been little reform at the micro level so industry isn't competitive. So they're really struggling; they just can't finance themselves," said Tim Ash, economist at WestMerchant Bank. **Jeremy Grant**

EGYPT

Rating outlook improves

Thomson BankWatch, the New York-based credit rating agency, yesterday changed Egypt's rating outlook to positive, following a similar improvement in outlook granted to Lebanon on Monday.

The agency reaffirmed Egypt's BB plus rating and Lebanon's B plus. It said Egypt's macroeconomic management remained strong and the tight fiscal discipline demonstrated since 1991 provided great confidence that the government could, if needed, deliver further deficit-cutting measures. "Egypt seems to have embarked on a virtuous cycle of higher growth, rising investments, and rising savings," said the agency.

In Lebanon, which suffers from huge budget deficits and repeated pressures on the local currency, Thomson BankWatch said the outlook had improved due to progress in reducing the fiscal deficit and inflation, rising foreign exchange reserves and a successful $1bn Eurobond issue in April. The deficit target of 14 per cent of gross domestic product for 1998 was within reach, it added. **Roula Khalaf**

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Sep 3	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	107.1996	5.48	+0.08	−0.20	+0.26	+0.49
	08/08	8.750	122.7159	5.72	+0.07	−0.16	+0.22	−0.78
Austria	07/00	5.875	102.7200	3.75	+0.03	−0.04	−0.30	−0.81
	01/08	5.000	103.8900	4.49	−0.04	+0.04	−0.29	−1.22
Belgium	01/03	4.000	100.4400	3.85	−0.03	−0.08	−0.34	−0.39
	03/08	5.750	108.7800	4.47	−0.05	−0.03	−0.34	−1.30
Canada	03/00	5.000	99.2000	5.65	+0.04	−0.34	+0.28	+1.42
	06/08	6.000	103.6200	5.51	+0.03	−0.32	+0.07	−0.46
Denmark	11/00	6.000	103.2700	4.43	+0.06	−0.18	+0.05	−0.17
	11/07	7.000	115.9300	4.81	+0.03	−0.04	−0.09	−1.44
Finland	01/99	11.000	102.5950	3.21	−0.02	−0.12	−0.40	−0.71
	04/08	6.000	110.5850	4.61	−0.02	+0.01	−0.18	−1.25
France	01/00	4.000	100.5400	3.67	−0.03	−0.07	−0.31	−0.49
	04/03	7.500	116.5700	4.06	−0.03	−	−0.35	−1.12
	04/08	5.250	108.8100	4.35	−0.03	+0.06	−0.34	−1.23
	04/29	5.500	106.0000	5.11	−0.03	+0.07	−0.15	−1.19
Germany	03/00	4.000	100.8500	3.41	−0.07	−0.03	−0.47	−0.55
	10/03	6.500	114.1800	4.16	−0.06	+0.02	−0.39	−1.16
	01/08	5.250	107.6800	4.23	−0.04	+0.06	−0.36	−1.40
	01/28	5.625	108.9500	5.06	−0.06	+0.08	−0.16	−1.31
Ireland	10/01	6.500	106.7700	4.14	−0.09	−0.08	−0.43	−1.86
	08/06	8.000	111.0000	4.60	−0.05	+0.01	−0.28	−1.75
Italy	04/01	4.500	101.0800	4.04	−0.02	−0.04	−0.30	−1.65
	06/03	4.750	102.2200	4.22	−0.03	−0.03	−0.32	−1.79
	05/08	5.000	102.7000	4.64	−0.03	+0.01	−0.21	−1.78
	11/27	6.500	118.9400	5.34	−0.03	+0.04	−0.08	−1.88
Japan	03/00	6.400	109.1200	0.40	−	−0.04	−0.08	−0.10
	06/03	4.500	117.0300	0.85	+0.01	−0.06	−0.13	−0.67
	09/05	3.000	112.5400	1.14	+0.01	−0.03	−0.14	−0.92
	03/18	2.700	112.1900	1.95	+0.03	−0.05	−0.19	−0.92
Netherlands	05/00	9.000	108.6800	3.88	−	−0.11	−0.43	−0.85
	07/08	5.250	106.9400	4.27	−0.06	+0.03	−0.34	−1.27
New Zealand	02/01	8.000	103.4835	6.38	+0.09	−0.11	−0.21	−0.86
	11/06	8.000	109.8581	6.43	+0.09	+0.05	+0.23	−0.71
Norway	01/99	9.000	100.3200	7.74	+0.39	−0.63	+2.39	+3.20
	01/07	6.750	108.9500	5.68	+0.04	−0.48	+0.34	−0.33
Portugal	03/00	5.375	102.2800	3.80	−0.08	−0.01	−0.38	−1.43
	06/08	5.375	105.7400	4.63	−0.01	+0.02	−0.28	−1.67
Spain	04/00	8.750	104.5600	3.73	−0.04	−0.10	−0.37	−1.29
	01/08	6.000	110.0900	4.65	−0.04	+0.05	−0.21	−1.60
Sweden	05/00	10.250	109.1130	4.38	+0.05	−0.12	+0.07	−0.50
	05/08	6.500	111.8440	4.92	+0.03	−0.02	+0.02	−1.66
Switzerland	03/00	6.000	104.9500	1.93	−0.01	−0.12	−0.46	−0.01
	06/07	4.500	113.6500	2.72	+0.02	+0.10	−0.13	−0.81
UK	11/01	7.000	102.6563	6.06	−0.05	−0.05	−0.41	−0.90
	12/03	6.500	103.9375	5.62	−0.03	−0.01	−0.41	−1.37
	12/07	7.250	113.9297	5.32	−0.06	−0.01	−0.37	−1.88
	12/28	6.000	115.0313	5.03	−0.12	−0.05	−0.31	−1.91
US	05/00	5.500	100.8131	5.00	−0.02	−0.04	−0.44	−0.94
	08/03	5.500	101.9885	5.01	−0.04	−0.09	−0.46	−1.29
	05/08	5.625	104.4296	5.04	−0.04	−0.07	−0.39	−1.26
	11/27	6.125	110.7385	5.39	−0.03	−0.07	−0.26	−1.20
ECU	07/00	4.000	100.4500	3.74	−0.05	−0.11	−0.38	−0.80
	04/08	5.250	106.5200	4.40	−0.03	+0.04	−0.34	−1.56

London closing. *New York mid-day. Source: Interactive Data/FT Information
Yields: Local market standard. Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Sep 3	Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.73	+1.49	+0.69
Austria	4.54	+0.30	−0.50
Belgium	4.54	+0.30	−0.50
Canada	5.51	+1.27	+0.47
Denmark	4.83	+0.59	−0.21
Finland	4.62	+0.38	−0.42
France	4.39	+0.15	−0.65
Germany	4.24	−	−0.80
Ireland	4.61	+0.37	−0.42
Italy	4.72	+0.48	−0.32
Japan	1.39	−2.85	−3.65
Netherlands	4.38	+0.14	−0.66
New Zealand	6.43	+2.19	+1.39
Norway	5.61	+1.37	+0.57
Portugal	4.64	+0.40	−0.40
Spain	4.71	+0.47	−0.33
Sweden	4.94	+0.70	−0.10
Switzerland	2.88	−1.36	−2.16
UK	5.24	+1.00	+0.20
US	5.04	+0.80	−
ECU	4.43	+0.19	−0.61

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis

EMERGING MARKET BONDS

Sep 3	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB−	93.4693	9.24	−0.64	+1.76	+4.33
Poland	07/04	7.125	BBB−	95.3553	8.18	−0.11	+1.87	+3.17
Russia	06/07	10.000	CCC	27.2500	40.83	−5.43	+24.00	+35.78
LATIN AMERICA								
Argentina	09/27	9.750	BB	74.2500	13.29	−1.01	+2.99	+7.92
Brazil	05/27	10.125	BB−	62.0000	16.43	−0.82	+4.98	+11.10
Mexico	05/26	11.500	BB	92.4063	12.47	−0.49	+2.67	+7.18
ASIA								
China	07/06	7.750	BBB+	92.5625	9.11	−0.74	+2.14	+4.08
Philippines	10/16	8.750	BB+	68.5000	13.42	+1.01	+4.15	+8.24
Thailand	04/07	7.750	BBB−	73.5741	12.92	+0.37	+3.49	+7.87
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB−	100.6261	8.73	−0.64	+0.93	+3.79
South Africa	10/06	8.375	BB+	93.8008	9.50	−1.59	+0.84	+4.47
Turkey	09/07	10.000	B	84.6250	12.98	−1.62	+3.10	+7.93
BRADY BONDS								
Argentina	03/23	5.750	BB	64.8750	9.79	−0.39	+1.42	+4.51
Brazil	04/14	5.000	BB−	57.6250	14.22	−0.81	+3.54	+9.06
Mexico	12/19	6.250	BB	73.1250	9.13	−0.12	+1.16	+3.91
Venezuela	03/20	6.750	B+	60.0000	11.96	−0.27	+2.57	+6.72

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	108.26	108.35	+0.15	108.56	108.10	148,898	100,695
Dec	107.76	107.88	+0.15	108.04	107.76	3,729	38,585

LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Sep	Calls Oct	Calls Dec	Puts Sep	Puts Oct	Puts Dec
102	5.73	5.73	5.74	-	0.01	0.06
103	4.73	4.74	4.79	-	0.03	0.10
104	3.74	3.79	3.88	0.01	0.06	0.18
105	2.77	2.91	3.02	0.05	0.19	0.32

Est. vol. total, Calls 5,120 Puts 10,409. Previous day's open int., Calls 27,027 Puts 34,375

Germany

NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	113.05	112.99	+0.13	113.38	112.73	8025	24440
Dec	111.91	112.12	+0.27	112.35	111.79	486	4697

NOTIONAL GERMAN BUND FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	112.86	113.13	+0.48	113.30	112.71	437,962	528,523
Dec	111.91	112.27	+0.61	112.38	111.75	177,298	328,467

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Oct	Calls Nov	Calls Dec	Puts Oct	Puts Nov	Puts Dec

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 7456 Puts 5540

NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	107.87	107.95	+0.22	108.12	107.73	164,000	218,000
Dec	107.25	107.44	+0.30	107.59	107.13	52,142	93,331

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	122.76	122.94	+0.18	123.12	122.65	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Oct	Calls Nov	Calls Dec	Puts Oct	Puts Nov	Puts Dec
11800	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
11850	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
11900	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Est. vol. total, Calls [illegible] Puts [illegible]. Previous day's open int., Calls [illegible] Puts [illegible]

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	112.39	112.67	+0.21	112.83	112.37	[illegible]	[illegible]
Dec	112.81	113.08	+0.27	113.23	112.81	[illegible]	[illegible]

UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	-	105.20	+0.16	-	-	0	641
Dec	-	105.40	+0.16	-	-	0	1618

NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	111.64	112.05	+0.42	112.36	111.64	[illegible]	[illegible]
Dec	111.90	112.29	+0.44	112.64	111.78	[illegible]	[illegible]

LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

Strike Price	Calls Oct	Calls Nov	Calls Dec	Puts Oct	Puts Nov	Puts Dec
11200	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
11250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
11300	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Est. vol. total, Calls [illegible] Puts [illegible]. Previous day's open int., Calls [illegible] Puts [illegible]

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Sep	126-24	127-05	+0-14	127-05	126-24	[illegible]	[illegible]
Dec	126-16	127-01	+0-14	127-01	126-16	[illegible]	[illegible]
Mar	126-21	126-22	+0-14	126-22	126-19	1,331	-

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol.	Open int.
Sep	135.18	135.27	-	135.31	135.05	1448	n/a
Dec	135.04	135.17	-	135.21	134.93	2916	n/a

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	−	106.26	−0.14	−	−	0	16

US CORPORATE BONDS

Sep 2	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA−	105.0129	5.76	−0.01	−0.32	+0.87
NY Tel	08/25	7.00	A+	101.0380	[illegible]	−0.01	−0.14	+1.56
CWE	05/08	8.00	BBB	112.5495	[illegible]	+0.01	−0.25	+1.21
FINANCIALS								
GECC	05/07	8.75	AAA	118.9639	5.93	+0.01	−0.24	+0.89
Banc One	08/02	7.25	A+	104.3229	5.82	−	−0.33	+0.93
US West	01/07	7.30	BBB	105.5437	6.44	−	+0.26	+0.96
INDUSTRIALS								
WMX Tech	04/99	6.25	BBB+	100.1752	5.92	−0.05	−0.34	+1.28
Wal Mart	05/02	6.75	AA	104.5100	5.38	−0.01	−0.53	+0.49
Dayton Hud	06/21	9.70	BBB+	133.3175	6.78	+0.03	+0.03	+1.45
AGENCIES								
FHLMC	04/07	7.14	N/A	110.4013	5.59	−	−0.25	+0.55
SLMA	03/09	7.50	N/A	103.1989	5.27	−0.06	−0.47	+0.42
FNMA	02/18	8.95	N/A	135.7154	5.84	+0.05	−0.18	+0.51
FFCB	06/06	8.95	N/A	129.9814	5.57	+0.01	−0.24	+0.53
HIGH YIELD								
Stone Cont	02/01	11.50	B	98.5000	0.00	−	−	−
AK Stl	12/01	9.13	BB−	97.5000	0.00	−	−	−
Pacalta	06/04	10.75	B−	94.0000	0.00	−	−	−

NY closing. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	8½	One month	-	Two year	4.89
Broker loan rate	7¼	Two month	-	Three year	4.90
Fed.funds	5½	Three month	4.85	Five year	4.91
Fed.funds at intervention	-	Six month	4.84	10-year	5.04
		One year	4.67	30-year	5.32

INTERNATIONAL BONDS

Sep 3	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
EURO DM								
EIB	02/07	5.750	AAA	108.0200	4.48	−0.08	−0.28	+0.23
Spain	01/07	5.750	AA	108.6900	4.47	−0.09	−0.27	+0.25
Philip Morris	03/04	5.375	A	102.2500	4.89	+0.02	−0.08	[illegible]
Finland FRN	09/02	3.629	AA	100.5528	3.30	−0.08	−0.41	−0.49
EURO FFR								
Austria	01/04	5.500	AAA	105.6200	4.09	+0.01	−0.35	+0.10
Abbey Nat	02/04	6.000	AA	108.4853	4.22	−0.03	−0.31	+0.23
Cred Foncier	02/04	9.125	A	121.3800	4.59	−0.05	−0.14	+0.60
SCF FRN	12/01	3.633	AA−	99.8563	3.81	−0.01	−0.37	−0.14
EURO LIRA								
EIB	03/07	7.000	AAA	118.5500	4.59	−0.05	−0.21	−0.04
Abbey Nat	02/02	8.500	AA	107.9700	4.28	−0.03	−0.31	+0.07
Walt Disney	06/00	8.625	A	107.3000	4.28	+0.02	−0.27	+0.15
EIB FRN	03/01	4.000	AAA	100.0055	3.89	−0.03	−0.29	−0.20
EURO £								
EIB	12/07	7.625	AAA	111.6887	5.94	−0.04	−0.17	+0.58
Dresdner Bk	12/07	7.750	AA−	107.5160	6.63	+0.27	+0.03	+1.27
British Gas	03/00	7.625	A+	100.9187	6.94	−0.04	−0.56	+0.64
Abbey Nat FRN	02/02	7.900	AA	100.1659	5.83	−0.04	−0.44	+0.02
EURO $								
EIB	04/07	7.250	AAA	110.9200	5.61	−0.07	−0.27	+0.60
ABN Amro	06/07	7.125	n/a	108.5723	5.86	−0.05	−0.63	+0.85
Quebec	01/07	7.000	A+	108.6394	5.89	−0.05	−0.53	+0.88
Citicorp FRN	02/04	5.750	A+	101.3344	5.17	−0.03	−0.45	+0.23
EURO C$								
Bayer L-Bk	08/04	9.500	AAA	116.6416	6.07	−0.03	+0.15	+0.15
Toronto	05/04	8.500	AA+	111.7034	6.01	−0.03	+0.13	+0.09
Bell Canada	07/99	10.625	A+	103.5907	6.10	−0.02	+0.28	+0.96
Deutsche B FRN	09/02	5.875	AAA	100.4766	5.74	−0.04	−0.12	−0.78
EURO YEN								
World Bank	03/02	5.250	AAA	115.0485	0.70	+0.01	−0.12	−0.03
Spain	03/02	5.750	AA	117.7165	0.67	+0.01	−0.11	−0.06
Cred Foncier	08/02	4.750	A	113.9763	1.16	+0.01	−0.12	−0.48
Italy FRN	07/99	0.727	AA	100.2467	0.10	−	−0.01	−0.26

London closing. Standard & Poor's ratings. Yields: Local market standard/annualised basis. Source: Interactive Data/FT Information

UK BONDS

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Thu Sep 3	Day's change %	Wed Sep 2	Accrued interest	xd adj. ytd
1 Up to 5 years (17)	119.65	0.10	119.53	2.89	7.80
2 5-15 years (20)	167.26	0.36	166.68	2.59	7.14
3 Over 15 years (6)	215.18	0.64	213.78	2.20	7.20
4 Irredeemables (6)	279.51	0.67	277.65	3.72	8.53
5 All stocks (49)	188.15	0.34	186.60	2.52	[illegible]

UK Indices

	Low coupon yield Sep 3	Sep 2	Yr. ago	Medium coupon yield Sep 3	Sep 2	Yr. ago	High coupon yield Sep 3	Sep 2	Yr. ago
5 yrs	5.69	5.74	7.00	5.75	5.80	7.06	5.74	5.78	7.12
15 yrs	5.17	5.23	7.00	5.31	5.36	7.07	5.41	5.45	7.13
20 yrs	5.14	5.21	7.06	5.26	5.34	7.07	5.40	5.44	7.13
Irred.†	5.40	5.44	7.06						

Index-linked

	Thu Sep 3	Day's change %	Wed Sep 2	Accrued interest	xd adj. ytd
1 Up to 5 years (2)	221.21	0.12	220.93	2.62	3.53
2 Over 5 years (11)	240.04	0.62	239.04	1.61	[illegible]
3 All stocks (13)	235.36	0.57	234.02	1.50	[illegible]

	Inflation 5% Sep 3	Sep 2	Yr. ago	Inflation 10% Sep 3	Sep 2	Yr. ago
Up to 5 yrs	2.72	2.76	3.57	2.04	2.05	2.91
Over 5 yrs	2.41	2.44	3.60	2.22	2.25	3.41

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Sep 3	Sep 2	Sep 1	Aug 28	Aug 27	Yr ago	High*	Low*
Govt. Secs. (UK)	108.29	107.81	107.77	108.39	108.19	97.22	108.39	93.31
Fixed Interest	145.98	145.60	145.93	147.40	147.02	125.53	147.40	115.32

[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

Bears take charge of the US dollar

MARKETS REPORT

By Richard Adams in London and John Labate in New York

The US dollar stumped analysts yesterday, falling in value in Europe and the US as equity markets plunged in early afternoon trading and Treasury prices climbed higher on a new round of concerns about the global economy.

By early afternoon the dollar was down against the yen, at Y134.45, its weakest point since the last intervention by the Bank of Japan. Against the D-mark it touched a nine and half month low during trading in Europe, and recovered slightly in New York by noon, to DM1.7305.

Currency analysts in London said the dollar's weakness signalled what may be the end of its upward trend against European currencies for the past 18 months.

In Europe, the dollar had ended trading hours at DM1.724, a fall of 2.6 pfennigs against the German currency compared to the closing level on Wednesday.

The crisis in Russia, added to concerns about further falls in other emerging markets, sent Treasury bond prices soaring to record levels, but major currencies continued trading in a relatively narrow range, sending analysts mixed signals.

While many in the market anticipate a cooling off of US economic growth through the rest of the year, those prospects remain bright compared to a Japanese economy showing few signs of turnaround.

"The only explanation that *I find that has merit to it is* that we have global margin calls," said Marc Chandler, senior currency strategist at Deutsche Bank in New York.

By this view investors are covered short positions into one of three main currencies, the D-Mark, the Swiss franc, and the yen, which they had previously sold to finance acquisitions of other assets.

In addition Japanese institutions have been forced to raise funds to cover losses.

"There is some capital repatriation going on by the Japanese, but I have a feeling it is more than normal," said Michael Rosenberg, managing director of international fixed income at Merrill Lynch.

■ *Yesterday's trade marked* only the latest in unexpected currency moves since the Russian government was thrown into crisis and the rouble was devalued.

Analysts expect that hedge funds and other investors – some of which have suffered huge losses in the wake of turmoil in Russia and Asia – have had to sell holdings of some US dollar assets, in *order to offset other losses.*

"In times of stress you may have to sell what you have a profit in," said Mr Rosenberg.

Some are eyeing moves by the Japanese government as a main issue in future currency trading for the next several weeks. With expectations of action to prop the economy dimming daily, any sudden move could set off a new round of selling dollars.

■ The *foreign exchange market* may be exaggerating the importance of any deal between Japan's politicians over bank restructuring.

Ken Landon, Deutsche Bank's currency analyst in Tokyo, said: "Japan has got huge problems. They are just at the beginning of cleaning it up – and they will have to spend a lot of resources."

Mr Landon said the possible sources of funds to refound the banking sector were all very negative for the yen – increased taxes, deficit spending or printing money.

Some traders in Europe and the US said the yen repatriation ahead of Japan's *fiscal half-year end* has largely been factored into the market.

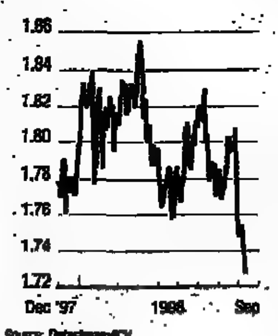
■ The informal agreement between Singapore's banks over unresolved ringgit forward contracts should calm the excitement.

A group of banks agreed to terminate existing contracts that settle after September 9, and settle at a rate of M$4 to the US dollar.

Yesterday the banks' industry group, the Association of Banks in Singapore, *said: "Customers are advised* to contact their banks to settle their [ringgit] transactions as soon as possible and not later than 9 September 1998. Each bank would have its own procedures for the settlement of such transactions."

Dollar

Against the D-Mark (DM per $)



Source: Datastream/ICV

POUND IN NEW YORK

Sep 3	—Latest—	— Prev. close —
£ spot	1.6760	1.6700
1 mth	1.6732	1.6672
3 mth	1.6681	1.6621
1 yr	1.6480	1.6420

OTHER CURRENCIES

Sep 3	£		$	
Czech Rep	51.7004 -	51.8705	30.8070 -	30.8470
Hungary	372.380 -	373.006	221.490 -	[illegible]
Iran	5045.40 -	5042.40	3000.00 -	[illegible]
Kuwait	0.5120 -	0.5131	0.3046 -	[illegible]
Peru	5.1180 -	5.1278	3.0450 -	[illegible]
Poland	6.1887 -	6.2058	3.6920 -	[illegible]
Russia	30.4140 -	30.4408	17.5000 -	[illegible]
U.A.E.	6.1732 -	6.1774	3.6726 -	[illegible]

POUND SPOT FORWARD AGAINST THE POUND

Sep 3		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.4008	-0.1687	903 - 112	20.5367	20.3886	20.3316	4.1	20.2006	3.9	19.7144	3.4	108.5
Belgium	(BFr)	59.8064	-0.4832	524 - [illegible]	60.2160	59.7524	59.5891	4.2	[illegible]	4.0	57.794	3.4	[illegible]
Denmark	(DKr)	11.0411	-0.085	[illegible]	11.1122	11.0304	11.0134	3.0	10.9602	2.9	10.7684	2.5	105.5
Finland	(FM)	8.8201	-0.0744	[illegible]	8.8780	8.8133	8.7904	4.0	8.7335	3.8	8.5173	3.4	82.1
France	(FFr)	9.7200	-0.0796	107 - 335	9.7841	9.7102	9.6875	4.0	9.6245	3.9	9.3868	3.4	108.7

[illegible]

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Sep 3		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	12.1339	-0.1854	313 - 365	12.3034	12.0880	12.1121	2.2	12.0718	2.0	11.9289	1.7	103.4
Belgium	(BFr)	35.5715	-0.5365	[illegible]	36.0600	35.4600	35.5053	2.2	35.384	2.1	34.9315	1.8	[illegible]
Denmark	(DKr)	6.5670	-0.0965	[illegible]	6.6650	6.5570	6.561	1.1	6.5498	1.0	6.5121	0.8	[illegible]
Finland	(FM)	5.2460	-0.081	[illegible]	5.3175	5.2294	5.2366	2.1	5.2192	2.0	5.1616	1.6	81.5
France	(FFr)	5.7813	[illegible]	810 - 816	5.8807	5.7600	5.7712	2.1	5.7518	2.1	5.6775	1.8	106.2

[illegible]

WORLD INTEREST RATES

MONEY RATES

Sep 3	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.75	–
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.60	–	3.30
Germany	[illegible]	[illegible]	3½	[illegible]	[illegible]	4.50	2.50	3.30
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	–	–	[illegible]
Italy	[illegible]	[illegible]	5	[illegible]	[illegible]	6.50	5.00	4.99
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	–	2.75	3.30
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	–	1.00	–
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	–	5.00	–
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	–	0.50	–
■ $ LIBOR BBA London								
Interbank Fixing	–	[illegible]	[illegible]	[illegible]	[illegible]	–	–	–
US Dollar CDs	–	5.43	5.38	5.32	5.26	–	–	–
ECU Linked Ds	–	[illegible]	[illegible]	4	[illegible]	–	–	–
SDR Linked Ds	–	[illegible]	[illegible]	[illegible]	4	–	–	–

London Interbank fixing rate (LIBOR) is the BBA London rate [illegible]
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Sep 3	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

BASE LENDING RATES

	%		%		%
Adam & Company	7.50	Exeter Trust Limited	8.50	●Smith & Williamson	7.50
Allied Irish Bank (GB)	7.50	Financial & Gen Bank	8.00	Sun Bank	7.50
●Henry Ansbacher	7.50	●Robert Fleming & Co	7.50	TSB	7.50
Banco Bilbao Vizcaya	7.50	Habib Bank AG Zurich	7.50	United Bank of Kuwait	7.50
Bank of Cyprus	7.50	●Hambros Bank	7.50	Unity Trust Bank Plc	7.50
Bank of Ireland	7.50	Heritable & Gen Inv Bk	7.50	Whiteaway Laidlaw	7.50
Bank of India	7.50	C. Hoare & Co	7.50	Yorkshire Bank	7.50
Bank of Scotland	7.50	Hongkong & Shanghai	7.50		
Barclays Bank	7.50	Investec Bank (UK) Ltd	7.50	● Members of London Investment Banking Association	
Brit Bk of Mid East	7.50	Julian Hodge Bank	7.50		
●Brown Shipley & Co Ltd	7.50	●Leopold Joseph & Sons	7.50		
Citibank NA	7.50	Lloyds Bank	7.50		
Clydesdale Bank	7.50	Midland Bank	7.50		
The Co-operative Bank	7.50	NatWestminster	7.50		
Coutts & Co	7.50	●Rea Brothers	7.50		
Cyprus Popular Bank	7.50	Royal Bk of Scotland	7.50		
Duncan Lawrie	7.50	●Singer & Friedlander	7.50		

COMMODITIES & AGRICULTURE

COPPER WEST COAST WAREHOUSES CAPPED

LME moves to correct distortion

By Kenneth Gooding, Mining Correspondent

The London Metal Exchange yesterday took action to correct a distortion to its copper market that has been hitting European consumers hard.

So much copper has been attracted to the LME's authorised warehouses on the west coast of the US that consumers have had to pay big premiums to take delivery from those in Europe.

At one point this year the premium to the LME cash price for delivery from Rotterdam warehouses rose to $70 a tonne, compared with the usual $20 to $30. Kevin Norrish, minerals economist at Barclays Capital, said so far this year the premium has averaged $40 a tonne.

The LME board announced a scheme to "cap" the amount of copper that could go into the west coast warehouses. Each warehouse company in Los Angeles and Long Beach would have its maximum tonnage capacity for LME copper fixed at the amount it held at noon on December 2 this year.

Yesterday, the warehouses, which are authorised but not owned by the LME, contained 209,925 tonnes of copper or 63 per cent of the total 335,375 tonnes in the exchange's stocks. Analysts said the level had reached 80 per cent at one point this year.

Barclay's Mr Norrish said the decision to "cap" storage capacity at the west coast warehouses might distort the market even more in the short term. "It is an incentive for those warehouses to ship in more metal to get the level as high as possible by December 2."

The LME said it was right that reasonable notice of the change should be given because "people have contractual arrangements".

The exchange has been criticised in the past for establishing the west coast warehouses because they were close to some big US producers, whereas the policy had always been to have warehouses in areas of net metal consumption.

The LME responded by pointing out that finding ideal locations for warehouses was always difficult and those on the US west coast were to supply south-east Asian markets – which are net consumers. At first this worked and metal flowed from the US to Asia but economic turmoil in the region caused a build up of stocks in the US.

Traders suggested that the US companies responded to changed conditions by offering incentives to producers and merchants to use their warehouses.

The LME said yesterday: "The board's attention has been drawn to various comments and reports alleging payment of exceptional inducements, demand for a variety of substantial additional charges in addition to [normal] charges and impediments to speedy physical redelivery out of warehouses.

"The exchange is looking into this matter and intends to review as a matter of urgency its contractual arrangements with warehouse companies."

Some traders questioned how so-called inducements could be controlled. "It is up to the owner to charge what he wants to charge. If a US warehouse owner wants to charge less than a European one, surely that is up to him," said one.

Testing times for Guyanese forestry

The industry is seeking state aid as costs rise and exports fall, writes Canute James

Guyana's timber export industry, which was expected to bring revenues of about $100m a year from next year, is struggling to retain markets and keep foreign investors. The industry has asked the government for an injection of $100m, saying thousands of workers will be sacked.

"The industry is in recession," said David Persaud, president of the Forest Producers Association. Rising costs have been compounded by a steep fall in demand from exports markets.

Ten years ago, the industry was dominated by a handful of large local companies and two regional groups. Then the government, keen on foreign investors, managed to attract US, Canadian and Asian companies to the sector.

One of these, Barama, a joint venture involving Sunkyong of South Korea and Samling of Malaysia, obtained a raft of tax and other concessions for an area in the north-eastern region, near the Venezuelan border, totalling 4.1m acres.

However, the Asian economic problems have not only reduced investments in the industry but have closed export markets on which many investments were predicated.

About 75 per cent of Guyana's 83,000 square miles is forest, and the Forestry Commission, which administers the industry, says the country has more than 1,000 species of tree, of which 140 are being harvested. Only 15 are exported.

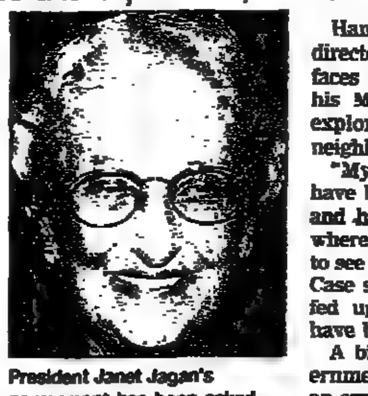
In the past three years, Guyana's timber sector has become increasingly valuable to the economy, contributing about 4.6 per cent of GDP. However, this will decline as export earnings are falling rapidly.

Barama's $100m investment, including a large plywood factory, employs about 1,000 people. Its top grade plywood has found easy markets in Asia and the US, but it is now laying off workers, and three locally owned companies say they may soon have to do the same.

Toolsie Persaud, a local producer, says demand has dropped to small orders from Caribbean buyers. "Our company alone has millions of dollars worth of logs and finished products in stock. We are in a serious predicament," says Yacoob Ally, the managing director.

The FPA has asked government to provide land and financing to build a communal drying kiln to process wood and help it access non-traditional markets which require dried timber.

The companies say they do not have the $100m required to buy state of the art saw milling equipment needed to compete internationally. With a communal kiln, several species of wood not now commercially feasible could be marketed, they said.



President Janet Jagan's government has been asked to set up a free trade zone

The producers have also asked the government of recently elected President Janet Jagan to establish a free trade zone. They want duty free concessions for spare parts and fuel, and a reduction in the fees charged by the Forestry Commission.

"We believe that such investments will create a surge in demand for all species of Guyana's hardwood," says Mr Persaud.

Some companies claim the government's attitude towards the industry is compounding their problems. Case Timbers of Guyana and United Amalgam Communal Industries of Malaysia have created a joint venture, but they say a lack of government co-operation is the reason for their recent threat to pull out of Guyana, giving up a $52m investment.

Hamley Case, managing director, says the company faces several problems, and his Malaysian partners are exploring their options in neighbouring Surinam.

"My Malaysian partners have been here for 4½ years and have reached the stage where they don't even want to see Guyana on a map," Mr Case says. "They are totally fed up with the way they have been treated."

A big problem is the government's refusal to grant an exploratory forest concession lease for another area.

"It was on the basis that the exploratory lease would be granted that the Malaysians decided to bring a $27m plywood mill into the country, but the mill has been sitting on the wharf for 12 months. The government appears ambivalent to foreign investment," he says.

The government has appointed a subcommittee to deal with the issue, says Roger Luncheon, cabinet secretary. "Both sides want this deal to go through."

Concessions granted to some companies have been criticised by environmental organisations, which claim the environment is being degraded.

Guyanese officials have rejected the "automatic association" of forestry with degradation of the environment. They say there is no clear felling in Guyana and that hardwood species are carefully selected.

NEWS DIGEST

EDIBLE OILS

Indian ban on mustard product hits other sectors

A ban on mustard oil in India has created a scare that has spilled over to other oils, crippling the Indian edible oil industry. The ban will hit the future mustard crop and its farmers, said Ajay Tandon, president of the Solvent Extractors' Association of India (SEAI).

The states of Bihar, West Bengal, Uttar Pradesh, Haryana, Orissa and Assam banned mustard oil sales last week after 41 people died from a dropsy caused by the oil. The health ministry said the dropsy was triggered by a toxic alkaloid sanguinarine in argemone oil, with which the mustard oil had been adulterated. Mustard oil is used mostly in eastern and northern states for cooking.

"No one is going to touch mustard now, no one is going to grow mustard either if this trend continues," Mr Tandon said. "Activity in the edible oil industry has come to a virtual standstill."

Mustard oil accounts for nearly 25 per cent of India's domestic oil output and the ban will affect other edible oils as well, he said. "Crushers, refiners and processors deal in various oils, and once a sample of mustard oil is found defective then all their activity in other oils is also brought to a halt. That affects our supplies and creates a panic situation in the market."

India's mustard crop totals nearly 5m tonnes from which 1.7m tonnes of oil is extracted. **Reuters, New Delhi**

COCOA

Smaller production deficit seen

The International Cocoa Organisation has forecast a world production deficit in 1998-99 of 70,000 tonnes, compared with an estimated deficit of 146,000 tonnes in 1997-98. The organisation forecast 1998-99 production at 2.79m tonnes and grindings at 2.86m tonnes, against 1997-98 production and consumption forecasts of 2.682m and 2.828m tonnes respectively. Ivory Coast, the biggest producer, is expected to produce 1.14m tonnes in 1998-99, against 1.11m tonnes in 1997-98.

The data will be used in the ICCO's management plan, which is intended to achieve a balance between production and consumption within four years. **Reuters, London**

Oil prices above $13 for first time in a month

MARKETS REPORT

By Paul Solman and Agencies

World oil prices jumped above $13 for the first time in a month yesterday, as traders began to worry about the impact of potential long disruptions to supplies from Russia.

In late trading on the London's International Petroleum Exchange, benchmark Brent blend for October delivery was $13.02 a barrel, compared with Wednesday's close of $12.46. However, the global supply glut means the price remains well below last year's average of $19.30.

Russia is one of the world's largest oil producers, and its exports of crude from its main Black Sea and Baltic ports have been severely restricted since last week – banking chaos has prevented lifters from getting hold of money to pay customs duties. Russia is also a key supplier of oil products, such as gas oil and fuel oil, to Europe, though these have not been hit hard so far.

The oil price was also boosted yesterday by reports that Venezuela and Saudi Arabia – key participants in the recent agreements to curb global production – are to meet in London next week. A meeting arranged between the two countries and Mexico for last month failed to take place.

Base metals also rose on the London Metals Exchange, with analysts attributing the gains to funds covering short positions and triggering stops.

Nickel had surged $165 to $4,195 a tonne at the kerb close, while copper was up $36 at $1,678 a tonne and aluminium was $12.50 higher at $1,427 a tonne.

Falconbridge Dominicana (Falcondo), a subsidiary of the Canadian group, yesterday announced that, in response to market conditions, it was cutting production from its ferro-nickel operation in the Dominican Republic. Falcondo will shut down for about three months from October 25, losing about 8,000 tonnes of nickel in ferro-nickel production as a result.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1409-10	1426-27
Previous	1391-2	1409-10
High/low		1432/1400
AM Official	1395-96	1413.5-14.0
Kerb close		1427-27.5
Open int.	297,876	
Total daily turnover	111,172	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1195-205	1220-25
Previous	1185-90	1210-12
High/low		1225/1215
AM Official	1180-85	1211-11.5
Kerb close		1225-30
Open int.	7,626	
Total daily turnover	2,589	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	536-7	545-6
Previous	526.5-7.5	537-8
High/low		547/537
AM Official	528-28.5	537.5-38
Kerb close		541-2
Open int.	35,101	
Total daily turnover	7,446	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4220-30	4280-90
Previous	4070-80	4135-45
High/low		4360/4110
AM Official	4085-90	4150-60
Kerb close		4290-95
Open int.	56,483	
Total daily turnover	28,359	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5495-505	5345-55
Previous	5440-50	5300-10
High/low		5355/5320
AM Official	5485-90	5340-45
Kerb close		5340-45
Open int.	14,787	
Total daily turnover	[illegible]	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1036-37	1057-58
Previous	1022-3	1045-6
High/low		1056/1038
AM Official	1032-33	1053-54
Kerb close		1049-50
Open int.	85,353	
Total daily turnover	20,190	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1665-66	1677-78
Previous	1635-6	1645-6
High/low		1690/1632
AM Official	1625-26	1640-41
Kerb close		1677-78
Open int.	166,119	
Total daily turnover	90,800	

■ LME AM Official £/$ rate: 1.6843

LME Closing £/$ rate: 1.6800

Spot: 1.6771 3 mths: 1.6696 6 mths: 1.6635 9 mths: 1.6567

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	75.20	+0.85	76.40	73.95	1,055	6,111
Oct	75.15	+0.75	76.40	74.00	98	2,695
Nov	75.15	+0.85	76.15	75.20	78	1,775
Dec	75.15	+0.75	76.60	73.65	9,004	31,077
Jan	75.25	+0.70	-	-	25	2,096
Feb	75.40	+0.70	-	-	1	1,102
Total					10,445	62,567

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	284.10-284.60		
Opening	278.80-279.10		
Morning fix	279.85	168.41	398.92
Afternoon fix	279.15	166.01	395.14
Day's High	284.70-285.20		
Day's Low	278.40-278.70		
Previous close	290.60-291.10		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month ...... 4.94 6 months 4.03

2 months ...... 4.82 12 months 3.78

3 months 4.68

Silver Fix	p/troy oz.	US cts equiv.
Spot	286.05	481.00

Silver Lending Rates

1 month ...... 3.75 6 months 2.20

2 months ...... 3.25 12 months 2.20

3 months 3.00

Gold Coins	$ price	£ equiv.
Krugerrand	282-285	168-170
New Sovereign	66-70	39-42

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	285.2	+4.9	-	-	1,273	-
Oct	286.0	+4.9	287.9	279.5	981	11,156
Dec	288.3	+4.9	290.5	281.7	18,354	117.1k
Feb	290.0	+5.0	291.9	283.7	800	13,941
Apr	291.8	+5.0	286.9	285.9	15	11,211
Jun	293.6	+5.0	293.9	287.5	21	14,986
Total					21,421	286,156

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	370.1	+0.2	371.8	362.5	957	9,734
Jan	371.1	+0.2	373.0	365.0	131	1,135
Apr	372.1	+0.2	-	-	-	22
Jul	373.1	+0.2	-	-	-	18
Total					1,088	10,909

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	286.30	+4.30	285.50	279.00	143	302
Dec	284.80	+4.80	286.00	279.00	450	2,140
Mar	282.50	+4.80	-	-	300	324
Total					893	2,766

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	488.8	+11.0	494.0	472.0	1,273	2,295
Dec	495.0	+11.0	500.0	475.0	8,012	57,132
Jan	496.9	+11.0	-	-	1	39
Mar	498.7	+10.9	502.5	480.0	228	8,769
May	500.8	+10.9	489.5	489.5	100	1,722
Jul	502.6	+10.9	-	-	26	2,981
Total					[illegible]	[illegible]

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Oct	14.24	+0.57	14.40	13.62	54,893	111.3k
Nov	14.44	+0.54	14.67	13.86	24,525	52,004
Dec	14.67	+0.49	14.82	14.13	11,965	71,893
Jan	14.90	+0.45	14.98	14.35	2,669	37,422
Feb	15.12	+0.43	15.23	15.00	912	19,448
Mar	15.35	+0.48	15.36	15.10	157	16,086
Total					102,008	[illegible]

■ CRUDE OIL IPE ($/barrel)

	5pm price	Day's change	High	Low	Vol	Open int
Oct	12.99	+0.53	13.09	11.85	28,314	57,511
Nov	13.26	+0.53	13.33	12.77	11,230	34,892
Dec	13.50	+0.50	13.56	13.04	7,251	39,038
Jan	13.69	+0.52	13.70	13.30	3,005	28,947
Feb	13.83	+0.48	13.83	13.83	50	10,631
Mar	14.00	+0.47	14.00	13.66	729	11,044
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Oct	38.60	+1.54	39.15	36.90	16,049	50,319
Nov	39.65	+1.52	40.25	37.90	6,109	30,983
Dec	41.00	+1.52	41.40	39.20	2,979	25,470
Jan	42.15	+1.42	42.60	40.50	2,409	25,575
Feb	43.10	+1.42	43.40	41.50	1,975	17,255
Mar	43.95	+1.77	43.95	43.20	1,146	15,977
Total					31,494	187,578

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	115.50	+6.75	116.75	108.50	10,971	21,633
Oct	118.25	+6.00	119.25	112.00	13,118	38,112
Nov	121.25	+5.50	122.00	115.50	2,984	20,133
Dec	123.50	+5.25	124.75	118.50	5,293	42,062
Jan	126.00	+4.75	126.50	122.50	634	16,145
Feb	128.25	+4.50	129.00	123.75	1,178	13,156
Total					34,332	163,234

■ NATURAL GAS IPE (1,000 therms; pence per therm)

Oct	12.910	+0.300	12.920	12.700	570	3,665
Nov	14.290	+0.190	14.330	14.180	185	2,365
Total					1,220	25,446

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Oct	1.715	+0.063	1.725	1.645	29,703	57,805
Nov	1.935	+0.055	1.945	1.880	11,364	32,042
Dec	2.215	+0.058	2.220	2.160	5,840	32,792
Jan	2.335	+0.045	2.340	2.280	5,006	31,079
Feb	2.285	+0.028	2.295	2.260	3,761	19,623
Mar	2.230	+0.038	2.240	2.200	3,610	16,393
Total					67,448	277,822

■ UNLEADED GASOLINE

NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Oct	41.60	+1.00	42.00	40.60	12,534	43,158
Nov	42.20	+1.07	42.50	41.30	4,048	10,939
Dec	43.10	+1.12	43.35	42.35	3,081	9,306
Jan	43.80	+0.92	44.20	43.15	415	4,120
Feb	44.35	+0.42	44.10	44.10	50	1,927
Mar	45.60	+1.12	45.60	45.20	21	1,847
Total					21,722	81,493

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	70.75	+0.35	-	-	-	176
Nov	72.40	+0.30	72.40	72.40	96	3,060
Jan	74.40	+0.30	74.50	74.25	150	2,190
Mar	75.90	+0.25	76.25	75.90	25	1,300
May	78.00	+0.35	78.00	77.90	25	1,077
Total					296	7,898

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	244.25	+4.25	244.50	238.50	6,070	4,378
Dec	259.50	+3.25	260.00	254.25	18,368	79,272
Mar	275.75	+3.50	276.00	270.25	2,462	34,096
May	284.00	+1.75	285.50	281.00	189	4,369
Jul	294.50	+2.00	295.50	291.00	553	11,205
Sep	302.50	+1.00	302.50	299.00	162	396
Total					28,132	123,999

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	195.50	+3.25	196.50	190.00	8,478	11,289
Dec	208.00	+3.50	209.75	202.50	55,596	178,478
Mar	220.00	+3.25	222.00	215.00	6,867	57,699
May	227.00	+2.50	228.50	222.50	2,659	20,478
Jul	233.25	+2.75	234.00	228.50	2,762	28,661
Sep	239.25	+2.00	239.50	235.75	181	4,762
Total					76,673	312,589

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	68.25	-	-	-	-	6
Nov	69.75	-	69.75	69.75	37	931
Jan	72.00	+0.25	-	-	-	411
Mar	74.00	+0.25	-	-	-	60
May	76.00	+0.25	74.75	74.75	8	23
Total					37	1,431

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	524.00	-1.25	526.00	519.50	1,466	5,987
Nov	521.00	-	523.00	515.75	32,604	88,438
Jan	531.25	-0.75	532.75	526.00	2,420	21,391
Mar	542.25	-1.00	543.50	537.00	1,586	14,983
May	551.75	-1.00	552.50	546.50	486	5,685
Jul	562.25	-0.75	563.00	556.50	930	7,920
Total					39,701	149,082

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	24.15	+0.48	24.18	23.62	5,984	4,701
Oct	24.32	+0.50	24.35	23.73	7,942	26,227
Dec	24.51	+0.42	24.56	23.96	12,730	52,486
Jan	24.58	+0.39	24.55	24.05	867	8,700
Mar	24.62	+0.37	24.65	24.10	2,090	11,431
May	24.66	+0.35	24.70	24.22	650	4,787
Total					30,932	115,890

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	133.3	-0.6	133.9	131.8	3,813	8,493
Oct	130.5	-1.4	131.5	128.7	3,316	26,185
Dec	132.9	-2.1	134.5	131.0	10,346	63,976
Jan	134.9	-2.0	136.0	133.0	1,399	12,226
Mar	138.8	-2.4	140.0	137.2	1,110	12,070
May	142.6	-2.2	144.0	141.3	543	5,861
Total					20,863	138,016

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	80.0	-2.0	-	-	-	3
Mar	116.5	-2.0	-	-	-	-
Apr	164.0	-2.0	165.0	164.0	17	2,254
May	174.0	-2.0	-	-	-	29
Jun	184.0	-2.0	-	-	-	-
Total					17	2,254

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	870	+25	879	850	22	173
Oct	946	+11	950	939	60	471
Jan	977	+7	980	970	18	395
Apr	995	+10	-	-	-	201
Jul	880	-	-	-	-	200
Total					113	1,844

	Close	Prev
BFI	824	817

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	1036	-10	1061	1034	54	250
Dec	1071	-10	1084	1066	2,792	65,770
Mar	1097	-10	1111	1093	1,657	42,085
May	1114	-10	1124	1109	210	14,886
Jul	1131	-10	1142	1129	50	9,074
Sep	1148	-10	1151	1151	136	27,122
Total					4,872	166,669

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	1573	-23	1610	1568	41	1,208
Dec	1602	-24	1634	1601	4,448	36,947
Mar	1645	-21	1672	1644	398	17,749
May	1670	-21	[illegible]	1678	3	5,744
Jul	1695	-24	1711	1711	5	1,770
Sep	1722	-24	-	-	12	1,681
Total					4,900	71,103

■ COCOA (ICCO) (SDR's/tonne)

Sep 2	Price	Prev. day
Daily	1292.71	1286.04

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	1669	+10	1679	1654	666	3,905
Nov	1643	+24	1650	1619	4,099	16,782
Jan	1585	+21	1590	1565	277	4,447
Mar	1550	+21	1562	1530	230	2,415
May	1536	+18	1536	1528	104	505
Jul	1533	+14	1533	1525	40	117
Total					5,376	27,171

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	118.25	-0.75	121.75	117.00	104	1,115
Dec	112.25	-1.05	114.35	110.75	3,978	14,550
Mar	109.75	-	111.50	108.00	649	6,052
May	110.50	+0.25	112.00	109.00	87	2,752
Jul	110.55	+0.30	112.50	110.25	101	1,229
Sep	111.75	+0.50	112.50	111.50	4	1,434
Total					4,923	27,287

■ COFFEE (ICO) (US cents/pound)

Sep 2		Prev. day
Comp. daily	99.26	100.70
15 day average	99.01	99.20

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	227.7	-0.9	230.9	226.9	3,073	18,291
Dec	228.7	-0.4	231.1	228.0	675	9,508
Mar	233.9	-0.4	235.7	233.1	343	13,994
May	239.1	-0.7	240.5	238.6	241	2,220
Aug	244.9	-0.1	245.8	245.0	301	1,298
Oct	245.4	+0.9	246.0	245.5	191	920
Total					4,824	46,395

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	7.54	-0.16	7.65	7.48	15,282	78,108
Mar	8.00	-0.10	8.15	7.98	8,953	58,215
May	8.15	-0.08	8.20	8.11	2,694	8,639
Jul	8.22	-0.05	8.24	8.20	301	7,168
Oct	8.44	+0.01	8.44	8.35	9	9,064
Total					24,714	169,029

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	74.50	-0.25	74.85	73.80	980	4,181
Dec	74.68	-0.16	74.95	74.10	11,388	35,559
Mar	73.86	-0.40	74.05	73.60	1,467	18,687
May	73.80	-0.45	74.00	73.65	433	10,108
Jul	74.30	-0.55	74.70	74.25	632	6,403
Total					15,114	84,609

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	115.05	-0.45	115.90	114.85	315	1,129
Nov	117.60	-0.35	118.30	117.05	3,347	17,679
Jan	120.25	-0.25	120.80	120.20	898	6,086
Mar	122.85	-0.25	123.15	122.75	208	2,570
May	125.65	-0.25	125.75	125.75	58	733
Jul	127.95	-0.40	-	-	20	348
Total					4,858	28,580

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Oct	57.900	-0.400	58.200	57.425	11,228	39,620
Dec	60.375	-0.075	60.600	59.750	4,453	23,913
Feb	61.800	-0.100	61.700	61.050	1,068	13,446
Apr	63.000	-0.275	63.150	62.575	631	5,782
Jun	61.700	-0.050	61.750	61.250	245	3,498
Aug	61.400	-0.350	61.700	61.350	23	581
Total					18,449	86,941

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Oct	37.300	-0.850	38.460	36.000	4,152	15,404
Dec	37.750	-0.300	38.400	36.300	2,901	[illegible]
Feb	42.950	-0.400	44.050	42.100	1,228	4,560
Apr	45.075	-0.300	45.700	44.575	330	1,410
Jun	54.300	-0.325	54.900	54.050	130	796
Jul	55.025	-0.025	55.360	54.700	67	383
Total					8,808	32,388

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Feb	47.700	-0.575	48.700	45.275	1,739	2,466
Mar	48.000	-0.325	48.500	45.325	62	147
May	47.950	-0.350	48.700	45.300	10	11
Total					1,813	2,629

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Oct	Jan	Oct	Jan
1350	72	107	11	24
1400	40	76	28	42
1450	18	51	56	66
■ COPPER (Grade A) LME	Oct	Jan	Oct	Jan
1600	94	128	22	83
1700	39	77	67	99
1800	12	42	139	168
■ COFFEE LIFFE	Sep	Nov	Sep	Nov
1550	80	110	1	17
1600	30	78	1	33
1650	1	51	21	58
■ COCOA LIFFE	Sep	Dec	Sep	Dec
1050	4	50	4	29
1075	1	38	25	42
1100	1	28	50	57
■ BRENT CRUDE IPE	Oct	Nov	Oct	Nov
1250	54	-	-	42
1300	28	-	-	-
1350	14	61	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$12.08-2.28x	+0.32
Brent Blend (dated)	$12.61-2.65	+0.545
Brent Blend (Oct)	$12.96-3.00	+0.47
W.T.I.	$14.20-4.22x	+0.59

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$147-150	+2
Gas Oil	$117-118	+7.5
Heavy Fuel Oil	$57-58	+0.5
Naphtha	$109-112	
Jet fuel	$133-134	+5
Diesel	$123-124	+4

■ NATURAL GAS (Pence/therm)

Bacton (Oct)	12.85-12.90	+0.26

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

Gold (per troy oz)♣	$284.35	+3.50
Silver (per troy oz)♣	481.00c	-3.75
Platinum (per troy oz.)	$363.00	-6.00
Palladium (per troy oz.)	$279.00	-9.00
Copper	82.0c	+3.0
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	23.13r	
Tin (New York)	259.5	
Cattle (live weight)	83.43p	-2.04*
Sheep (live weight)	85.08p	-8.48*
Pigs (live weight)†	37.06p	-3.07*
Lon. day sugar (raw)	$182.00	[illegible]
Lon. day sugar (wte)	$238.30	+5.30
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Oct)♥	46.00p	
Rubber (Nov)♥	46.50p	
Rubber (KL RSS No1)	260.00m	-4.50
Coconut Oil (Phil)§	645.0y	-15.0
Palm Oil (Malay.)§	660.0	+20.0
Copra (Phil)§	$402.5y	-5.0
Soyabeans (US)	147.0y	
Cotton Outlook'A' index	67.45	-0.15
Wooltops (64s Super)	300p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Aug/Sep. x Sep. ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 1,561 head of pigs sold.

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

PULP AND PAPER

■ PULPEX OMLX (US$; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	400.00	-	-	-	-	269
Dec	437.00	-3.00	443.00	437.00	51	367
Total					89	714

FUTURES DATA

All futures data supplied by CMS.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Sep 3	Sep 2	month ago	year ago
1498.2	1502.1	1549.0	1934.5

■ CRB Futures (Base: 1967 = 100)

Sep 2	Sep 1	month ago	year ago
199.36	198.67	-	-

■ GSCI Spot (Base: 1970 = 100)

Sep 2	Sep 1	month ago	year ago
138.80	139.35	141.22	197.51

LME WAREHOUSE STOCKS (tonnes)

Aluminium	+50	to	453,425
Aluminium alloy	+1,380	to	75,290
Copper	+11,825	to	333,350
Lead	-	to	114,525
Nickel	+714	to	59,418
Zinc	-1,325	to	364,600
Tin	-110	to	8,100

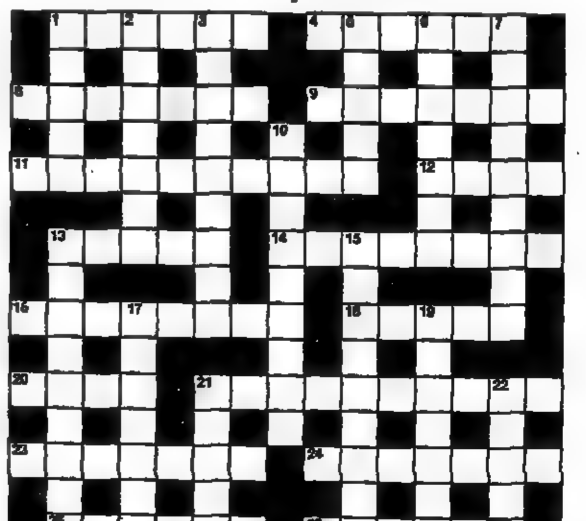
Wool from Mallett & Co

With holidays ending in most of the wool using world there are hopes that demand might revive. There was better competition and higher prices for some British wool, carpet types being most affected. New Zealand was cheaper after firming previously, and in both markets Chinese interest and letters of credit were mentioned as helping. Australian prices eased again, with volatile currencies confusing the trend. The wool trade remains unhappy at Australian government interference over stockpiles. The eastern market indicator fell 26 cents to 537 cents a kg. The NZ indicator closed at 418 cents, down 14 cents.

JOTTER PAD

CROSSWORD

No.9,778 Set by ADAMANT



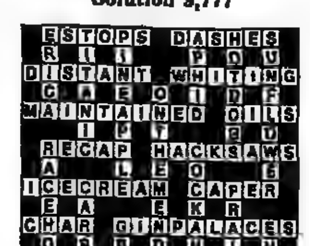
ACROSS

1 Four wheel drive in English county (6)
4 Parking on land presents a predicament (6)
8 Drills include leading demonstrators on marches (7)
9 Bring a certain seriousness to a taunt, if in New York (7)
11 Eastern article, actually in an airy fashion (10)
12 Unusual resistance over many years (4)
13 Argue it's so backward in mine (5)
14 Animal left with one adult – that's a bloomer (8)
16 Unfortunate delay after agent got the game started again (8)
18 He helped to make capital out of more musicals (5)
20 Starts losing umpteen dollars over board game (4)
21 A love of china perhaps? (10)
23 Britain's involvement in Zaire is very odd (7)
24 Hotel making a mistake with fish (7)
25 Good publicity for insect, an irritating creature (6)
26 Dies as doctor makes muttered remarks (6)

DOWN

1 Caught out after second person sent to reconnoitre (5)
2 Get back into line (7)
3 Near disaster on street in Ely in very serious manner (9)
5 It appears in song for ordinary people (5)
6 Universal information with real twist (7)
7 The Lieutenant's affair might shiver the timbers (9)
10 Another clue: one date could make it clear (9)
13 Taking for granted that the prince will be starting again (9)
15 They keep matters in order! (9)
17 Sign standard disclaimer initially for wild animal (7)
19 Showed advancing years by being cross about true developments (7)
21 Over-ripe, with usual terminal danger (7)
22 Society in America is like a hole in the head (5)

Solution 9,777



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FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

GUERNSEY (FSA RECOGNISED)

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (FSA RECOGNISED)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

ISLE OF MAN (FSA RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (FSA RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

LUXEMBOURG (FSA RECOGNISED)

[illegible]

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Bank Von Ernst & Cie AG

Marktgasse 63/65, 3001 Berne, Switzerland 0041 313291711

For Banque Indosuez see Credit Agricole Indosuez

Barclays Diversified Portfolio (z)

50 avenue J.F. Kennedy, L-2951 352 4799 2930

GT Global

HSBC Investment Funds Luxembourg SA (u)

7 rue du Marche - aux - Herbes L-1728 Luxembourg

Dealing 00 352 4798 2220 Fax 475589

HSBC Global Investment Funds

International and Regional Funds

Market Specific

Mercury Asset Management - Contd.

Morgan Stanley Sicav

C/O First European Transfer Agent S.A.

17 Boulevard Grand-Duchesse Charlotte

L-1331 Luxembourg

ACM Offshore Funds - Contd.

Credit Suisse Asset Mgmt Funds - Contd.

Merrill Lynch Asset Management - Contd.

UBS AG - Contd.

Friends Provident International

OFFSHORE INSURANCES

LUXEMBOURG (REGULATED)(**)

ACM Offshore Funds

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FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

	Selling Price	Buying Price	+ or -	Yield Gross
Royal & Sun Alliance Intl Financial Srvs				
Royal Court, Athey Rd, Castletown IoM 01624 821212				
[illegible]				
Royal Skandia Life Assurance Ltd (z)				
01624 611611				
[illegible]				

	Selling Price	Buying Price	+ or -	Yield Gross
Asian Convertibles & Income Fd (Cayman)				
NAV Aug 13		39.82	—	-
Atlantico Investment Ltd				
Atlantico Liber Plus Jun 7		$187.81	—	-
Atlantic Investment Management, Inc				
[illegible]				
Atlantic Fund Management (Guernsey) Ltd				
[illegible]				
Atlas Real Estate Hedge Fund Limited				
NAV Jul 31		$109.25	—	-
Aureus Funds				
[illegible]				
BEA Associates				
[illegible]				
BNP				
[illegible]				
Julius Baer Bank & Trust Co Ltd				
[illegible]				
Bahia Fund				
[illegible]				
Banca Reig, S.A. (Principality of Andorra)				
[illegible]				
Banco do Brasil–BB Fund				
[illegible]				
Banc Internacional D'Andorra Banca Mora				
[illegible]				

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CONSTRUCTION

[illegible]

CONSTRUCTION - Continued

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Continued

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

FOOD PRODUCERS

[illegible]

FOOD PRODUCERS - Continued

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS & TEXT

[illegible]

INSURANCE

[illegible]

INSURANCE - Continued

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Continued

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

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LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Continued

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Continued

[illegible]

PROPERTY - Continued

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Continued

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Continued

[illegible]

TELECOMMUNICATIONS

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Continued

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Continued

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

TRADED INDEX SECURITIES

[illegible]

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4.30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-price/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for these particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Figures or report awaited
- Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- Rule 4.2(a) Irish incorporated non-listed companies.
- Price at time of suspension
- Indicated dividend yield after pending scrip and/or rights issue
- Merger bid or reorganisation in progress
- Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
Assumed dividend yield after rights issue.
Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield excludes a special payment
F Yield based on prospectus or other official estimates for 1998-99
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1997.
K Yield based on prospectus or other official estimates for 1998
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1997-98
N Dividend is paid in whole or part as a FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
ꭗ ex dividend; ꭗ ex scrip issue; ꭗ ex rights; ꭗ ex all; ꭗ ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1485 a year for each security shown, subject to the Editor's discretion

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FT Cityline

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An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.

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The share prices printed on these pages are also available on the internet at http://www.FT.com.

LONDON STOCK EXCHANGE

Equity rally halted as Footsie tumbles 117 points

MARKET REPORT

By Steve Thompson,
UK Stock Market Editor

Wednesday's rally in UK stocks proved disappointingly short-lived as London's equity market moved decisively back on to the downside track.

There were no fresh factors behind yesterday's widespread retreat by UK stocks, simply a herd-like follow-on from Wall Street's disturbing late sell-off and a continuation of the weakness of American markets at the outset yesterday.

There was no massive sell-off on Wall Street overnight. Rather it was the about-turn from strength to moderate weakness – the Dow Jones Industrial Average finished only 45 points down having been up three figures and more – that unnerved global markets.

Once they had lost their collective nerves, the markets fed on the increasing unease. Most of the Asian markets fell only modestly, with Tokyo down less than one per cent and Hong Kong even less. But European bourses had to cope with hefty losses, especially Frankfurt and Paris. Wall Street's continuing weakness at the outset yesterday – it dropped another 100 points during the afternoon – did nothing to calm nerves.

There were continuing suggestions from marketmakers and brokers that London was seeing a further taste of switching manoeuvres by domestic and overseas funds, out of equities and into gilts.

But turnover levels, at least in equities, were never more than run of the mill and fixed interest traders said there was no substantial shift into gilts. Rather, they said, a good performance by gilts was due to a rather depressed service sector survey.

Even more disappointing as far as the equity market was concerned, was the poor response by stock prices to the latest slide in sterling against most currencies, although not the dollar. The Bank of England's trade-weighted index fell a further 0.6 to 104.4, extending the decline over the past three sessions to 1.6.

At the close, the FTSE 100 was 117.1 lower at 5,118.7, its fifth decline in the past six sessions and its fourth three-figure loss in that period.

At its worst the index fell back through the 5,100 level, hitting 5,089.3, down 146.5, and there were real concerns among traders that the psychologically important 5,000 level was about to be tested.

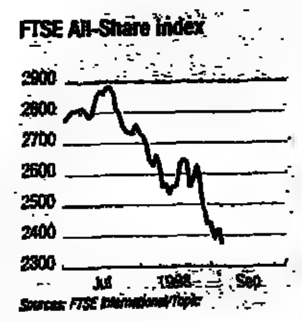
Marketmakers said the 5,100 level was well defended. "The institutions moved in and bought the market quite aggressively then," said one, who insisted a move below 5,000 could produce a serious burst of selling from small investors, unused to bear markets.

Second-line and smallcap stocks were also given a thorough shaking, the FTSE 250 index dropping below the 4,700 level to finish a net 63.2 lower at 4,648.8, and the FTSE SmallCap index relinquishing 13.1 at 2,068.2.

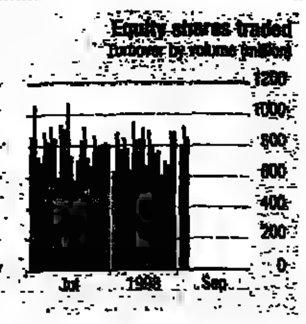
There was another flight to safety in the leaders, with food retailers, traditionally a safe haven in turbulent markets, being pushed by Credit Lyonnais Securities.

And the possibility that a cut in UK interest rates may now come much earlier than previously expected was a help to housebuilders. Turnover at 6pm was 850.2m shares.

FTSE All-Share Index



Equity shares traded
Turnover by volume (million)



Sources: FTSE International/Topic

Indices and ratios

FTSE 100	5118.7	−117.1	FT 30	3266.7	−76.3
FTSE 250	4648.8	−63.2	FTSE Non-Fins p/e	20.18	20.48
FTSE 350	2450.8	−52.0	FTSE100 Fut Sep	5105.0	−130.0
FTSE All-Share	2378.16	−48.59	10 yr Gilt yield	5.46	5.51
FTSE All-Share yield	3.34	3.28	Long gilt/equity yld ratio	1.62	1.66

Best performing sectors

1. Property ... +0.3
2. Extractive Inds ... +0.0
3. Construction ... −0.1
4. Pharmaceuticals ... −0.2
5. Leisure & Hotels ... −0.3

Worst performing sectors

1. Oil Exploration ... −6.0
2. Banks: Retail ... −4.5
3. Alcoholic Beverages ... −3.8
4. Chemicals ... −3.1
5. Food Producers ... −3.0

Builders rise on rate hope

COMPANIES REPORT

By Martin Brice and Joel Kibazo

Hints of a change in sentiment towards the housebuilders seemed finally to arrive as shareholders digested the implications of a run of positive results from the sector.

The shares were also said to have benefited from a growing belief among investors that the UK interest rate cycle had peaked, and the next move in interest rates would be down.

One analyst said: "It is usually a good time to buy building stocks when the collective wisdom is that interest rates are more likely to go down than up."

George Wimpey was up 3 at 103p as it said that Fidelity, the big US investment fund, had bought 3.6m shares, or 1 per cent. This took its stake to 7 per cent. Persimmon, which reported on Tuesday, was up 3 at 155½p.

Mark Hake, analyst at Merrill Lynch, said: "Results so far have generally matched or beaten expectations and managements have looked forward with a fair degree of confidence. We may well be past the worst for the sector."

Bryant was in demand ahead of final figures on Monday that are expected to produce a pre-tax advance of up to 32 per cent. The stock touched 155p this year but, along with others in the sector, has come under pressure on fears of the impact of a series of interest rates rises. They rose 3¼ yesterday to 85p.

Housebuilding analysts have been saying for some time that stocks in their sector have been too cheap. Some of the companies have been trading on price/earnings ratios of just 6 or 8 times, about half that of the rest of the market.

News from Marley that its share buyback was worth more than 11p a share prompted a rise of just 2 to 84p. One analyst explained the difference between the two by saying: "Marley is the Millwall of the building sector. Nobody likes them and they don't care."

David Taylor at Teather & Greenwood said: "There is a great degree of self-delusion at Marley. The company says it has conducted a strategic review but it has decided to carry on doing all the things it was doing before, and give shareholders some money back."

Bargain hunters helped make media group Reed International the best performing stock in the FTSE 100. The shares jumped 36½ or 8.4 per cent to 470p.

Charterhouse Tilney rates the stock "our key buy" and in a note published yesterday said worries about senior management changes "are understandable but overdone".

"We believe medium to long-term earnings growth will at least match, and very probably exceed, market earnings growth," said Charterhouse's media team.

In contrast Enterprise Oil was the worst-performing FTSE 100 stock yesterday as analysts considered the prospect of a hefty cut in the oil exploration and production company's final dividend if the current weakness in the oil price continues.

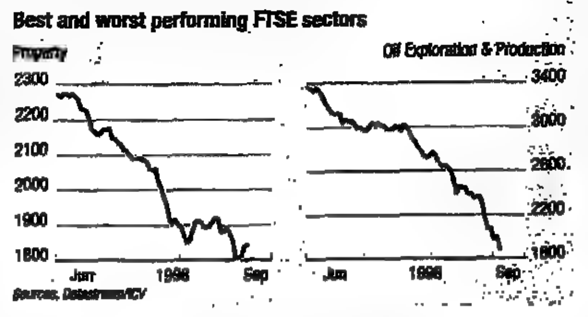
The concerns came after Enterprise warned with the publication of interim figures that falling oil prices, and the consequent cut in profitability would lead to a review of dividend policy by the end of the year.

Dealers said sentiment in the stock had been further weakened by fears that the company may soon be on the acquisition trail. And yesterday's dismal stock price performance was seen as the final nail in the coffin of its reign in the FTSE 100.

Next Wednesday brings the third-quarter review of FTSE 100 constituents, changes of which will be announced after the market close. They will be implemented on September 21.

Lasmo, too, is expected to lose its place in the elite index. Its shares dropped 5 to 154p.

Best and worst performing FTSE sectors



Sources: Datastream/ICV

Taste for retailers

An encouraging monthly survey from Taylor Nelson Sofres, the UK's largest market research company, combined with a broker's recommendation to boost the food retailers.

Credit Lyonnais Securities recently moved its stance on the sector to overweight. In a note to clients, analyst Paul Smiddy said: "We believe that the sector has further to run on the back of its safe haven status."

The broker's two main buys in the sector are Tesco and Safeway. Shares in the former followed the market trend easing 6¼ to 173¾p, in trade of 13m.

Mr Smiddy gave two reasons for favouring the stock. "It remains the UK company closest to approaching the [more highly rated] European model and the forecast downgrades to account for demand softening in the second half have been put in place. Funds that have been reluctant to move into Tesco on a high rating can now correct the mistake."

Safeway was one of the best performers in the FTSE 100 as the shares hardened 11 to 333p. Credit Lyonnais said: "If market forecasts are not met this year, the rise in take-out hopes will be substantial."

Mr Smiddy also advised a switch out of J Sainsbury which fell 10½ to 524p and into Tesco and Safeway.

Turnover of 34m made Shell the busiest stock as the market reflected on the widely expected news that Royal Dutch/Shell and Texaco of the US had agreed to pool most of their European refining assets.

Shell will have 88 per cent of the proposed joint venturewhich will give it a leading retail position.

The UK's biggest venture capital provider 3i was a strong performer for much of the session after a broker reiterated a "strong buy" recommendation.

Having been the best performing FTSE 100 stock on several occasions during the day, the shares finally succumbed to a late slide that left them 15 off at 500p.

The team at CSFB suggest there is 35 per cent upside in the share price from current levels and set a price target of between 675p and 700p.

Nick Roditi, one of the leading fund managers for George Soros, took on the entire £10m of new shares issued by Plantation & General Investments in its placing and open offer.

This took his stake in the African hand tools and trading company to 65 per cent, pending applications for the shares from other shareholders.

It also reported an 82 per cent pre-tax profit rise but warned that the coffee crop could be 15 per cent below last year. The shares rose a penny to 58p.

FT 30 INDEX

	Sep 3	Sep 2	Sep 1	Aug 28	Aug 27	Yr ago	*High	*Low
FT 30	3266.7	3343.0	3300.5	3329.5	3406.2	3182.3	3984.0	3241.6
Ord. div. yield	3.29	3.22	3.28	3.21	3.12	3.64	4.22	2.72
P/E ratio net	20.39	20.84	20.59	20.89	21.46	20.75	26.41	15.80
P/E ratio nil	20.31	20.76	20.50	20.80	21.37	20.47	26.16	15.71

FT 30 since compilation: high 3920.1 11/05/98; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3340.0	3295.8	3310.6	3297.1	3268.2	3271.7	3278.1	3256.1	3343.0	3241.6

 *For 1998.

STOCK MARKET TRADING DATA

	Sep 3	Sep 2	Sep 1	Aug 28	Aug 27	Yr ago
SEAQ bargains	67,705	74,249	80,734	73,590	60,591	41,013
Equity turnover (£m)†	-	3236.1	3310.1	3472.1	2867.9	2268.4
Equity bargains†	-	56,658	58,212	55,559	41,264	36,519
Shares traded (ml)†	-	805.7	737.0	808.3	698.9	635.6
Total market bargains‡	-	76,717	76,872	72,192	53,336	-
Total turnover (£m)‡	-	4860.2	4718.4	4908.1	4033.1	-
Total shrs traded (ml)‡	*850.2	1093.7	995.2	1068.1	846.5	-
Tradepoint turnover (£m)	31.8	29.9	54.6	47.8	33.0	1.8
Tradepoint shrs traded(ml)	7.3	8.6	12.5	7.6	10.0	0.3

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	377	Total Highs	20	Total contracts	41,040
Total Falls	1,242	Total Lows	272	Calls	26,423
Same	1,353			Puts	14,617

Sep 3 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	5170.0	5105.0	-123.0	5207.0	5094.0	35095	183746
Dec	5239.0	5177.0	-124.0	5270.0	5172.0	3050	34827
Mar	-	5227.0	-129.0	-	-	0	1083

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	4713.0	4650.5	-89.5	4713.0	4713.0	1205	4539
Dec	4770.0	4710.5	-89.5	4770.0	4710.0	1635	2213

FTSE 100 INDEX OPTION (LIFFE) (*5096) £10 per full index point

[illegible]														

Calls 1,113 Puts 1,135

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]														

Calls 21,425 Puts 5,757 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m)	1998 High	1998 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
[illegible]											
§	F.P.	23.7	100	99	Do Zero Div Pf	99½	-½	-	-	-	-
632	F.P.	4.02	32½	28½	†Parallel Pictures	30½		-	-	-	-
§55	F.P.	0.76	68½	62½	†Private & Comm Fin	63½	+1	R0.6	-	1.2	2.5
*	F.P.	15.2	63½	37½	†Sodra Petroleum	37½		-	-	-	-
*	F.P.	4.86	103½	90½	†SupaRole	90½		-	-	-	-
-	F.P.	-	34	21½	Syndicate Cap Wts 98/02	22½		-	-	-	-
-	F.P.	192.3	304	167½	Torotrak	167½		-	-	-	-
§	F.P.	-	[illegible]	606	Tribune IT Index	606½	-5	-	-	-	-
-	F.P.	-	35½	32½	Walker Greenbank B	33		-	-	-	-
52	F.P.	2.46	2½	2½	†Wilmslow	2½		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Sep 2	% chg on day	Sep 1	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (27)	760.93	+3.2	736.84	1464.86	2.98	-	1595.46	701.59
Regional Indices								
Africa (9)	876.38	+4.0	842.67	1383.25	5.51	34.64	1525.29	765.63
Australasia (7)	865.23	+4.7	826.09	1500.40	3.62	6.07	1609.65	615.93
Americas (11)	703.59	+2.6	686.06	1410.62	0.96	41.66	1574.16	647.69

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Sep 3	Day's chge%	Sep 2	Sep 1	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5118.7	−2.2	5235.8	5169.1	4991.3	3.25	2.78	1.96	19.59	112.21	2253.32
FTSE 250	4648.8	−1.3	4712.0	4627.3	4653.6	3.55	3.00	2.01	17.50	98.44	2003.00
FTSE 250 ex Inv Tr	4705.7	−1.3	4767.8	[illegible]	4679.7	3.64	3.09	2.06	16.50	98.75	2035.40
FTSE 350	2450.8	−2.1	2502.8	2458.8	2401.5	3.31	2.80	1.97	18.16	52.09	2203.80
FTSE 350 ex Inv Tr	2457.6	−2.1	2509.9	[illegible]	2403.6	3.32	2.82	1.98	18.97	53.52	[illegible]
FTSE 350 Higher Yield	2382.7	−1.8	2425.6	2403.0	[illegible]	4.46	[illegible]	1.90	14.75	68.44	1634.06
FTSE 350 Lower Yield	2522.7	−2.3	2582.9	[illegible]	2487.0	2.38	2.02	2.08	25.22	42.34	1641.36
FTSE SmallCap	2068.22	−0.5	2081.25	2047.45	2257.43	3.91	3.18	1.94	18.48	40.88	1807.22
FTSE SmallCap ex Inv Tr	2062.27	−0.5	2072.26	2042.00	2239.03	4.16	3.36	2.04	14.77	42.58	1820.86
FTSE All-Share	2378.16	−2.0	2426.75	2393.25	2345.24	3.34	2.82	1.97	18.99	51.23	2170.02
FTSE All-Share ex Inv Tr	2388.19	−2.0	2437.15	2404.05	2347.88	3.36	2.84	1.99	18.72	[illegible]	1121.24

FTSE Actuaries Industry Sectors

	Sep 3	Day's chge%	Sep 2	Sep 1	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(22)	3606.35	−1.8	3654.15	3596.98	5021.23	4.26	3.68	1.04	17.94	88.46	1694.55
12 Extractive Industries(6)	2268.19	—	2267.86	2155.19	[illegible]	[illegible]	5.65	2.07	9.88	79.47	716.68
15 Oil, Integrated(4)	4151.64	−1.6	4213.24	4150.68	5374.54	4.10	[illegible]	1.68	19.25	98.56	1972.59
16 Oil Exploration & Prod(10)	[illegible]	−6.0	2003.29	1976.72	3803.40	2.87	2.51	1.22	35.69	[illegible]	1170.52
20 GEN INDUSTRIALS(218)	1650.49	−1.8	1681.51	[illegible]	2056.37	4.41	3.88	2.27	12.48	44.95	976.97
21 Construction(38)	[illegible]	−0.1	1172.98	1139.38	1381.80	4.29	3.44	2.79	10.59	23.17	1047.97
22 Building Matls & Merchs(29)	1369.93	−1.3	1387.93	1365.35	1863.81	[illegible]	4.67	2.02	11.53	39.74	750.07
23 Chemicals(22)	1974.31	−3.1	2036.42	2013.96	2859.41	4.92	4.88	1.66	16.17	62.93	1019.95
24 Diversified Industrials(7)	996.23	−1.8	1014.07	1027.87	1432.14	6.80	5.40	2.10	10.28	56.21	630.51
25 Electronic & Elect Equip(26)	2246.54	−1.1	2270.61	2212.89	2191.90	[illegible]	2.74	1.86	20.04	53.70	1254.63
26 Engineering(63)	2150.24	−2.3	2200.56	2140.75	2767.87	4.44	3.95	2.47	11.38	[illegible]	1396.08
27 Engineering, Vehicles(11)	3279.51	−2.6	3363.25	3321.87	3212.32	2.67	2.45	3.38	13.85	57.50	1814.94
28 Paper, Pckg & Printing(33)	1573.33	−1.4	1595.99	1577.39	[illegible]	5.64	5.13	2.43	[illegible]	54.29	716.54
30 CONSUMER GOODS(90)	5323.51	−1.3	5394.74	5342.04	4620.31	[illegible]	2.48	1.71	26.26	95.40	2114.39
32 Alcoholic Beverages(6)	3265.48	−3.8	3395.47	3513.22	3264.41	4.15	3.51	1.60	18.86	69.61	[illegible]
33 Food Producers(25)	3501.83	−3.0	3611.49	3586.97	3083.12	2.99	[illegible]	2.10	19.93	64.63	1704.22
34 Household Goods & Texts(24)	2637.27	−2.5	2705.73	2663.78	3119.89	4.17	3.73	2.00	14.97	54.78	1114.30
36 Health Care(13)	2207.51	−1.1	2231.56	2208.45	2328.89	2.32	2.14	2.18	24.71	31.78	1415.77
37 Pharmaceuticals(19)	9290.63	−0.2	9310.59	9137.36	7496.94	1.90	1.77	[illegible]	41.51	145.50	3340.91
38 Tobacco(3)	5075.71	−0.9	5122.84	5079.91	4399.04	5.07	4.48	[illegible]	15.30	130.10	1420.64
40 SERVICES(278)	3160.77	−1.7	3214.54	3165.43	2750.13	2.71	2.22	[illegible]	22.73	52.30	1748.31
41 Distributors(28)	1990.52	−0.7	2005.29	1977.39	2604.32	4.86	4.11	1.96	[illegible]	58.47	788.96
42 Leisure & Hotels(27)	2828.51	−0.3	2836.10	2737.41	[illegible]	3.34	2.80	2.63	14.27	69.58	1608.68
43 Media(40)	3861.60	−1.3	3914.12	[illegible]	4113.45	2.70	2.27	[illegible]	21.57	76.45	1471.78
44 Retailers, Food(13)	2937.88	−1.0	2966.57	2893.93	2430.62	[illegible]	2.47	2.12	[illegible]	55.00	2013.70
45 Retailers, General(46)	2174.52	−0.9	2193.72	2184.84	2261.68	[illegible]	2.75	2.18	18.75	47.04	1335.95
46 Telecommunications(9)	4303.91	−2.6	4418.80	4385.21	2404.41	2.02	1.67	1.49	41.47	47.70	2111.02
47 Breweries, Pubs & Rest.(24)	[illegible]	−0.8	3286.88	3231.50	3369.20	3.77	3.03	2.37	14.02	65.00	1674.41
48 Support Services(64)	4195.48	[illegible]	[illegible]	[illegible]	3162.57	[illegible]	[illegible]	2.70	31.63	[illegible]	2767.39
49 Transport(24)	3290.29	−1.6	3343.66	3254.69	2886.39	3.23	2.64	[illegible]	24.23	60.51	1474.72
60 UTILITIES(22)	3901.78	−1.0	[illegible]	3879.34	3145.09	4.12	3.38	1.74	17.43	69.38	1880.22
62 Electricity(8)	4310.99	−1.0	4354.79	4288.14	3510.09	4.67	3.73	1.90	14.11	107.21	2545.73
64 Gas Distribution(2)	2372.63	[illegible]	2398.08	2925.02	2468.17	2.19	1.75	‡	‡	26.03	1718.09
68 Water(12)	3483.29	−1.3	3528.46	3491.51	2919.82	4.90	4.21	2.34	[illegible]	112.14	2180.04
69 NON-FINANCIALS(627)	2448.94	−1.5	2487.27	2450.30	2365.00	3.22	2.75	[illegible]	20.19	48.21	2005.41
70 FINANCIALS(105)	[illegible]	−3.5	4595.08	[illegible]	4606.14	3.81	3.14	2.16	15.17	125.31	2069.95
71 Banks, Retail(12)	[illegible]	−4.5	6455.52	6441.97	7112.88	4.14	3.31	2.11	14.28	195.24	[illegible]
73 Insurance(15)	2096.35	−1.9	[illegible]	2028.64	1851.98	4.12	3.86	2.58	11.75	73.90	1754.42
74 Life Assurance(8)	6881.81	−2.5	7058.19	6995.55	5109.79	2.78	2.40	2.40	18.78	118.11	3078.90
77 Other Financial(25)	3734.45	−2.5	3828.59	3775.31	3330.67	3.00	2.47	[illegible]	19.09	81.44	2287.89
79 Property(45)	1844.77	+0.3	1838.96	1812.64	1985.17	3.57	2.99	1.61	21.89	37.07	1218.65
80 INVESTMENT TRUSTS(115)	3148.96	−1.8	3206.34	3135.01	3454.98	2.59	2.10	1.17	41.25	47.66	1151.69
89 FTSE All-Share(847)	2378.16	−2.0	2426.75	2393.25	2345.24	3.34	2.82	1.97	18.99	51.23	2170.02
105 FTSE All-Share ex Inv Tr(732)	2388.19	−2.0	2437.15	2404.05	2347.88	3.36	2.84	1.99	18.72	[illegible]	1121.24
Information Technology	1406.53	−1.7	1430.90	[illegible]	–	0.66	0.53	[illegible]	47.49	5.04	1411.34
FTSE Fledgling	[illegible]	−0.4	1159.89	1140.23	1257.54	3.89	[illegible]	1.33	[illegible]	24.32	1289.15
FTSE Fledgling ex Inv Tr	1180.70	−0.3	1184.30	1184.29	1261.92	4.12	3.34	1.45	20.93	27.27	1322.69
FTSE AIM	871.4	−1.1	881.5	862.6	1021.9	1.27	1.01	0.26	80.00†	7.36	807.68

Hourly movements

	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	5235.8	5160.1	5188.3	5163.3	5124.6	5135.2	5137.1	5107.4	5215.1	5089.3
FTSE 250	4704.3	4695.1	4687.8	4683.9	4682.6	4669.9	4652.0	4643.0	4705.9	4646.8
FTSE 350	2502.1	2471.4	2481.9	2471.7	2456.3	2459.3	2458.3	2446.4	2493.9	[illegible]
FTSE SmallCap	[illegible]	[illegible]	2075.48	[illegible]	2073.56	[illegible]	2070.06	2068.91	2081.29	2068.23
FTSE All-Share	[illegible]	2397.59	2407.12	2397.72	2383.54	2386.23	2385.20	[illegible]	2419.32	2368.56

Time of FTSE 100 Day's high: 9:03:00 Day's low: 16:28:15. FTSE 100 1998 High: 6179.0 (20/07/98) Low: 5088.8 (12/01/98)
Time of FTSE All-Share Day's high: 9:03:00 Day's low: 16:29:00. FTSE All-Share 1998 High: 2865.20 (20/07/98) Low: 2378.20 (03/09/98)

Further information is available on http://www.ftse.com

† Sector P/E ratios greater than 80 are not shown. ‡ Values are negative. Deletion: Willis Corroon (FTSE 250) & (73); Creative Publishing (FTSE SmallCap) & (43); Charter European (FTSE SmallCap); Insert: Charter European (FTSE 250).

FTSE INTERNATIONAL

TRADING VOLUME

Major Stocks yesterday.

	Vol 000's	Closing price	Day's change
3i	2,000	500	−15
AMVESCAP	539	435	−33
ASDA Group	10,800	187½	+¾
Abbey National	4,900	1109	−17
[illegible]			

Based on trading volume for the FTSE 100 constituents and selected companies. [illegible]

صكرا من الاجل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Sep 3 / Sch)

BELGIUM/LUXEMBOURG (Sep 3 / Frs.)

CZECH REP (Sep 3 / Korun)

DENMARK (Sep 3 / Kr)

FINLAND (Sep 3 / Mkn)

FRANCE (Sep 3 / Frs.)

GERMANY (Sep 3 / Dm.)

GREECE (Sep 3 / Drachma)

ITALY (Sep 3 / Lira)

NETHERLANDS (Sep 3 / Fls.)

NORWAY (Sep 3 / Kroner)

POLAND (Sep 3 / Zloty)

PORTUGAL (Sep 3 / Escudo)

SPAIN (Sep 3 / Pta.)

SWEDEN (Sep 3 / Kronor)

SWITZERLAND (Sep 3 / Frs.)

TURKEY (Sep 3 / TL Lira)

PACIFIC

JAPAN (Sep 3 / Yen)

AUSTRALIA (Sep 3 / Aus$)

HONG KONG (Sep 3 / H.K.$)

INDONESIA (Sep 3 / Rupiah)

MALAYSIA (Sep 3 / MYR)

NEW ZEALAND (Sep 3 / NZ $)

SINGAPORE (Sep 3 / S$)

SOUTH KOREA (Sep 3 / Won)

TAIWAN (Sep 3 / TW $)

THAILAND (Sep 3 / Baht)

AFRICA

SOUTH AFRICA (Sep 3 / Rand)

AMERICAS

CANADA

TORONTO (Sep 3 / Can $)

4 pm close

MONTREAL (Sep 3 / Can $)

4 pm close

MEXICO (Sep 3 / Peso)

12:30 pm

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	WEDNESDAY SEPTEMBER 2 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	TUESDAY SEPTEMBER 1 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (72)	170.00	2.8	150.94	148.11	154.73	158.85	2.3	3.87	165.45	146.10	142.68	150.48	163.48	236.24	163.86	219.52
Austria (23)	184.65	1.5	163.95	160.86	168.07	187.97	1.6	2.01	181.97	160.70	156.93	165.49	185.30	253.73	181.69	194.46
Belgium (22)	364.20	3.9	323.38	317.31	331.59	324.30	4.0	2.11	350.39	309.61	302.17	318.65	311.81	398.52	234.33	241.52
Brazil (26)	141.67	-1.0	125.79	123.48	128.95	306.82	-0.9	3.74	143.08	126.43	123.39	130.12	309.77	308.58	134.47	283.80
Canada (119)	174.50	2.4	154.94	152.04	158.84	195.42	2.4	2.06	170.45	150.82	147.00	155.02	190.91	248.78	167.16	214.80
Denmark (34)	472.83	3.0	419.84	411.07	430.38	428.58	3.0	1.51	459.21	405.76	396.01	417.62	415.89	537.33	375.32	376.93
Finland (28)	399.59	4.2	354.80	348.15	363.71	448.72	4.3	2.06	383.43	338.81	330.67	348.71	428.41	508.45	287.59	285.67
France (78)	293.32	2.5	260.44	256.56	266.99	270.04	2.5	2.33	286.16	252.86	246.78	260.24	263.34	345.18	217.58	224.08
Germany (56)	264.29	3.4	234.67	230.27	240.56	240.56	3.5	1.33	255.54	225.80	220.37	232.40	232.40	325.61	204.89	218.39
Greece (37)	257.05	6.7	228.24	223.95	233.97	551.38	5.2	1.71	243.18	214.88	209.71	221.16	523.97	383.20	243.18	–
Hong Kong, China (66)	208.82	3.7	185.24	181.78	189.89	207.58	3.8	7.36	201.09	177.69	173.42	182.88	200.01	527.89	198.64	478.44
Indonesia (26)	27.91	3.1	24.79	24.32	25.41	188.65	1.7	3.50	27.08	23.93	23.35	24.63	183.55	174.57	23.58	130.64
Ireland (16)	415.64	1.5	369.06	362.14	378.38	408.44	1.7	2.31	409.48	361.82	353.13	372.39	401.63	580.44	359.60	365.81
Italy (54)	150.81	2.7	133.90	131.39	137.27	194.69	2.7	1.50	146.90	129.81	126.69	133.60	189.80	184.40	100.95	101.13
Japan (480)	84.00	-0.2	74.58	73.19	76.46	73.19	0.8	1.07	84.15	74.36	72.57	76.53	72.57	125.38	78.40	120.36
Malaysia (106)	83.53	13.6	74.17	72.78	76.03	122.25	11.0	5.10	73.52	64.96	63.40	66.86	110.15	384.86	73.52	317.28
Mexico (23)	931.68	6.7	827.28	811.75	848.08	10140.69	6.9	2.69	873.28	771.64	753.10	794.19	9562.28	1801.88	873.28	1701.94
Netherlands (27)	470.37	2.9	417.65	409.82	428.14	424.75	3.0	2.18	456.85	403.77	394.07	415.57	411.92	582.38	385.56	405.90
New Zealand (14)	51.02	1.8	45.30	44.45	46.44	53.95	2.8	5.69	50.11	44.28	43.21	45.57	52.51	95.87	50.11	88.40
Norway (38)	218.87	3.0	194.34	190.69	199.22	229.28	2.8	2.75	212.55	187.81	183.30	193.30	223.11	374.84	211.31	326.24
Philippines (22)	47.70	0.9	42.35	41.56	43.41	103.16	1.4	1.58	47.26	41.76	40.76	42.98	101.74	115.82	46.35	102.88
Portugal (10)	245.17	2.8	217.69	213.61	223.16	300.64	2.8	1.08	238.61	210.84	205.77	217.00	292.42	298.39	225.61	–
Singapore (41)	107.77	-0.6	95.69	93.89	98.08	85.49	0.8	3.49	108.38	95.77	93.47	98.57	85.78	331.17	107.77	284.17
South Africa (39)	162.08	3.9	143.92	141.22	147.53	220.08	2.2	4.07	155.94	137.80	134.48	141.82	215.41	348.20	151.55	335.50
Spain (31)	328.76	3.6	291.91	286.44	299.24	369.83	3.5	2.06	317.45	280.51	273.77	288.71	357.22	417.73	236.28	245.17
Sweden (49)	485.30	0.8	430.91	422.83	441.73	571.05	0.4	2.05	482.26	426.13	415.89	438.58	558.80	628.19	439.98	488.43
Switzerland (29)	376.69	3.6	334.47	328.20	342.87	336.83	3.8	1.24	363.67	321.35	313.63	330.74	324.62	438.48	290.19	293.24
Thailand (37)	8.15	-5.5	7.24	7.10	7.42	12.66	-4.6	7.33	8.63	7.63	7.44	7.85	13.48	45.52	8.15	39.92
United Kingdom (210)	340.59	0.8	302.41	296.74	310.01	302.41	1.3	3.29	337.96	298.63	291.45	307.35	298.83	401.84	303.41	309.98
USA (624)	404.05	-0.3	358.76	352.04	367.77	404.05	-0.3	1.62	405.27	358.10	349.50	368.56	405.27	485.88	358.31	376.71
Americas (798)	360.45	-0.2	320.05	314.05	328.09	305.76	-0.2	1.65	361.08	319.05	311.39	328.38	306.30	437.03	326.79	343.77
Europe (745)	322.98	2.3	286.78	281.41	293.98	290.20	2.5	2.27	315.85	279.09	272.39	287.25	293.02	386.24	268.69	269.38
Euroblock (352)	93.68	3.0	83.18	81.62	85.27	92.23	3.1	1.85	90.92	80.34	78.41	82.69	89.47	113.28	90.92	–
Nordic (140)	437.57	1.9	388.53	381.24	398.28	445.56	1.7	2.00	429.55	379.55	370.44	390.65	437.93	565.87	388.51	413.32
Pacific Basin (864)	87.90	-0.5	78.05	76.59	80.01	77.44	1.3	1.87	87.47	77.29	75.44	79.55	76.48	142.11	83.29	134.70
Euro-Pacific (1613)	185.84	1.8	165.01	161.92	169.16	161.35	2.1	2.16	182.68	161.35	157.47	166.05	157.88	220.19	172.08	191.18
North America (743)	388.71	-0.2	345.14	338.67	353.81	359.79	-0.2	1.53	389.50	344.17	335.90	354.23	360.59	460.20	349.86	366.69
Europe Ex. UK (535)	303.07	3.0	269.10	264.05	275.85	289.79	3.0	1.78	294.27	260.02	253.78	267.62	281.25	363.32	236.86	242.43
Europe Ex. Euroblock (396)	87.95	1.4	78.09	76.63	80.05	97.45	1.8	2.70	86.69	76.60	74.76	78.84	85.91	103.93	86.69	–
Europe Ex. UK Ex. Euroblock (186)	90.43	2.8	80.30	78.79	82.32	89.33	2.9	1.52	87.93	77.70	75.83	79.97	86.83	109.21	87.93	–
Pacific Ex. Japan (384)	132.68	3.4	117.81	115.60	120.76	141.59	3.2	5.25	128.26	113.34	110.61	116.65	137.20	287.15	128.26	261.29
World Ex. Euroblock (2097)	88.16	0.3	78.50	75.07	78.42	86.96	0.4	1.90	85.94	75.94	74.11	78.15	86.59	103.16	83.83	–
World Ex. US (1825)	185.15	1.8	164.40	161.32	168.53	165.29	2.1	2.79	181.84	160.67	156.81	165.37	161.82	221.91	175.30	195.43
World Ex. UK (2239)	247.71	0.7	219.95	215.82	225.47	227.47	0.8	1.72	245.94	217.32	212.10	223.67	225.60	298.02	234.24	248.12
World Ex. Japan (1969)	340.97	0.8	302.75	297.07	310.35	334.79	0.9	1.99	338.17	298.81	291.63	307.54	331.86	411.23	309.33	321.60
The World Index (2449)	255.68	0.7	226.98	222.70	232.65	234.29	0.9	1.89	253.76	224.23	218.84	230.78	232.25	306.55	241.39	253.44

Emerging markets: IFC Investable indices

Dollar terms

Sep 2 Market	Day's % Chg	% Chg on Dec 31 '97
Latin America		
Argentina		
Brazil		
Chile		
Colombia		
Mexico		
Peru		
Venezuela		
East Asia		
China		
India		
Indonesia		
Korea		
Malaysia		
Pakistan		
Philippines		
Sri Lanka		
Taiwan, China		
Thailand		
Europe		
Czech Rep		
Greece		
Hungary		
Poland		
Portugal		
Russia		
Slovakia		
Turkey		
Mideast/Africa		
Egypt		
Israel		
Jordan		
Morocco		
S Africa		
Zimbabwe		
Regional		
Composite		
Latin America		
Asia		
EMEA		
Europe		
Easte Europe		
ME & Africa		

4 pm close September 3

NEW YORK STOCK EXCHANGE PRICES

- X - Y - Z -

1998 High	Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close	Chng
118½	88⅞	Xerox x	1.44	1.6	75	14734	94⅞	88¾	90⅞	-5⅛
66⅛	45½	Xtra Corp			16	281	58⅛	57¾	57⅞	-⅞
29⅛	22½	Yankee Egy x	1.38	5.9	18	77	23⅞	23⅜	23⅛	-⅜
52¾	33	York Int	0.48	1.4	29	1127	34¾	33¾	34½	-⅜
24⅞	6⅝	Zapata	0.28	2.6	3	7515	11¼	10⅝	10⅝	-⅝
30½	23⅝	Zenith Nat	1.00	4.2	14	131	24	23⅞	23⅞	
8⅞	5⅞	Zenix Inc	0.70	11.0		178	6½	6⅜	6⅜	-⅛
14⅞	8⅝	ZweigFd ♣	1.24	12.2		450	10¼	10⅛	10⅛	-⅛
9⅞	8⅛	Zweig Tot	0.84	9.9		622	9½	8⅞	8½	

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.
d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. Yld-yield. z-sales in full.
‡ Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Sep 2	Sep 1	Aug 31	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	7782.37	7827.43	7539.07	9337.97 (17/7)	7539.07 (31/8)	9337.97 (17/7/98)	41.22 (8/7/32)
Home Bonds	105.19	105.01	104.88	105.48 (15/1)	104.42 (11/5)	105.48 (15/1/98)	54.99 (1/10/81)
Transport	2702.55	2753.77	2752.51	3686.02 (16/4)	2702.55 (2/9)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	272.87	278.28	278.29	295.40 (6/7)	262.88 (9/1)	295.40 (6/7/98)	10.53 (8/7/32)

DJ Ind. Day's high 8838.23 (7937.37) Low 7710.64 (7379.70) (Theoretical)
Day's high 7932.58 (7697.97) Low 7767.44 (7400.30) (Actual)

Standard and Poors	Sep 2	Sep 1	Aug 31	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	990.48	994.24	957.53	1186.25 (17/7)	957.59 (9/1)	1186.25 (17/7/98)	4.40 (1/6/32)
Industrials¶	1175.34	1183.78	1134.73	1388.48 (17/7)	1077.40 (9/1)	1388.48 (17/7/98)	3.52 (30/6/32)
Financial¶	109.69	107.84	105.04	147.88 (14/7)	105.04 (31/8)	147.88 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	494.83	495.93	488.80	608.75 (17/7)	488.80 (31/8)	608.75 (17/7/98)	4.04 (25/4/42)
Amex Comp	602.61	599.68	595.07	753.87 (22/4)	595.07 (31/8)	753.87 (22/4/98)	524.29 (18/7/96)
NASDAQ Comp	1592.85	1575.80	1499.25	2014.25 (20/7)	1499.22 (31/8)	2014.25 (20/7/98)	54.87 (3/10/74)
Russell 2000	[illegible]	[illegible]	337.95	481.41 (21/4)	337.95 (31/8)	481.41 (21/4/98)	123.38 (7/12/83)

■ RATIOS

	Aug 28	Aug 21	Aug 14	Year ago
Dow Jones Ind. Div. Yield	1.84	1.44	1.75	1.71
	Sep 2	Aug 26	Aug 19	Year ago
S & P Ind. Div. yield	1.47	1.38	1.32	1.52
S & P Ind. P/E ratio	28.84	30.83	31.03	26.11

US DATA

■ MARKET ACTIVITY

■ NYSE TRADING ACTIVITY

■ ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Tenet	11,048,900	44⅝	+1⅛
Cendant	10,081,800	11⅝	–⅛
Compaq	8,972,800	30⅝	+⅛
AmOnLine	8,843,700	89⅛	+3
LucentTch	8,040,100	74⅛	+1⅛
PhilMorr	8,396,100	42⅝	–⅛
Cowpth	8,378,800	54⅝	+⅛
Boeing	8,320,200	33⅛	+⅛
Citigp	8,050,500	108⅝	+1⅛
GenElec	6,813,800	80⅝	–2⅝

■ BIGGEST MOVERS

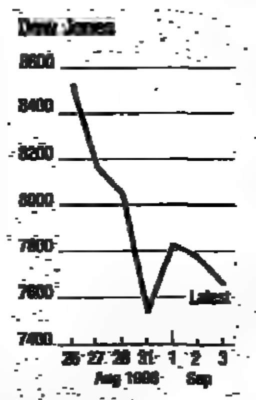
■ NASDAQ TRADING ACTIVITY

■ ACTIVE STOCKS

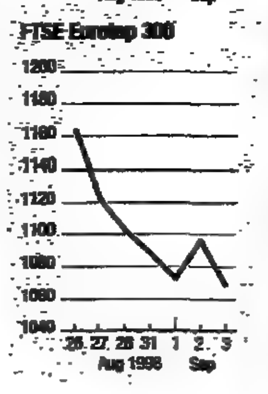
Wednesday	Stocks traded	Close price	Day's change
DellComp	38,322,000	110⅝	+1⅝
Intel	21,216,400	74⅝	–1⅛
CiscoSys	18,098,400	91⅝	+1⅝
Sanmina	16,753,900	25⅝	–3⅝
MicsB	15,655,400	100⅛	–⅛
WrldCm	14,188,800	45⅝	+1⅝
Costco	12,654,500	45⅛	–4⅛
Oracle	12,634,000	28⅛	–⅛
Ciena Cp	10,949,200	20⅛	–5⅛
Yahoo	9,780,500	77⅝	+6⅝

■ BIGGEST MOVERS

Dow Jones



FTSE Eurotop 300



JAPAN

■ TOKYO TRADING ACTIVITY

■ ACTIVE STOCKS / **■ BIGGEST MOVERS**

GERMANY

■ FRANKFURT TRADING ACTIVITY

■ ACTIVE STOCKS

Thursday	Stocks traded	Close price	Day's change
Bayer	898,188	66	[illegible]
Commzbk	649,588	51	–2.4
Dt Bk	648,128	100.5	[illegible]
Daimlr	623,921	161	–3.7
Dt Tel	603,984	38.3	+0.25
BASF	513,651	68.9	–2.3
Lufthan	490,655	41.6	–1.4
Veba	442,885	96	–3.6
Dresdbk	430,302	73	–4.5
VW	422,584	123.5	–8.1

■ BIGGEST MOVERS

Thursday	Close price	Day's change	Day's chge %
Ups			
MichRkD	405	+25	[illegible]
Rondhl	148	+6	+4.2
Varta	308	+10	+3.4
Degusk	29	+0.85	+3.0
Downs			
Hochtf	64	–5	–7.2
Oppmtn	80.5	–6	–6.9
Pridler	20.5	–1.5	–6.8
Porsche	3310	[illegible]	–5.8

FRANCE

■ PARIS TRADING ACTIVITY

■ ACTIVE STOCKS / **■ BIGGEST MOVERS**

UK

■ LONDON TRADING ACTIVITY Volume : 850,200,000

■ ACTIVE STOCKS

Thursday	Stocks traded	Close price	Day's change
Shell T&T	34,235,800	[illegible]	–5
Burford	21,067,120	85	+1
Asda	16,897,180	187½	[illegible]
Tesco	13,268,280	173½	–6½
Vodafone	13,168,130	722	[illegible]
Centrica	12,538,510	91	–1½
Lloyds TSB	11,822,810	657	[illegible]
BP	11,730,750	737	–10
Pilkington	10,850,670	68½	–7
BT	10,107,150	788	–12

■ BIGGEST MOVERS

Thursday	Close price	Day's change	Day's chge %
Ups			
MV Sports	¾	+¼	+50
Maiden Grp	270	+57½	+27.1
Beauford	[illegible]	+¼	+23.1
Vanguard Md	270	[illegible]	+17.4
Downs			
Marchpole	18½	–22	–54.3
Soco Intl	47½	–20	–29.6
Maybom Grp	66	–25	–27.8
Ferrum	1½	–½	–25

INDEX FUTURES

■ S&P 500	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	990.80	978.30	–14.30	998.80	976.00	160,989	350,403
Dec	–	1000.80	–	–	946.50	21,730	70,344
■ Nikkei 225							
Sep	14410.0	14200.0	–180.0	14410.0	14180.0	33,648	187,898
Dec	14300.0	14130.00	–140.0	14330.0	14110.0	6,264	39,804

Open interest figures for previous day.

■ CAC-40	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Sep	3700.0	3655.0	–94.5	3710.0	3601.0	83,247	190,073
Oct	3688.0	3685.0	–94.5	3688.0	3649.0	23	1,139
■ DAX							
Sep	4910.0	4802.0	–152.0	4910.0	4744.0	37,981	99,652
Dec	4920.0	4829.5	–161.5	4926.5	4773.0	1,404	5,646

■ OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Sep	632.00	622.50	–20.00	637.75	614.00	27,089	141,959
Oct	637.75	597.75	–9.25	637.75	637.75	1	66
■ SOFFEX							
Sep	6795.0	6615.0	–250.0	6795.0	6555.1	9,145	30,187

WORLD MARKETS AT A GLANCE

Country	Index	Sep 3	Sep 2	Sep 1	1998 High	1998 Low	Yield	P/E
Portugal	BVL 30	4762.10	4826.62	4705.56	6178.88 22/4	3879.27 3/1	2.04	26.6
	PSI 20	10611.09	10919.88	10832.51	14292.90 22/4	9001.84 2/1		
Spain	TTS	81.43	85.83	85.88	411.81 5/1	81.43 3/9	na	na

Mixed steeply lower to close within a whisker of all-time lows.

[illegible]

THE NASDAQ STOCK MARKET

4 pm close September 3

[illegible]

AMEX PRICES

4 pm close September 3

[illegible]

EASDAQ

[illegible]

STOCK MARKETS

More gloom extinguishes midweek rally

WORLD OVERVIEW

The tentative flicker of a rally witnessed late on Tuesday and Wednesday was snuffed out yesterday as investors were reminded of financial problems all round the world, *writes Philip Coggan*.

Colombia weighed in with a devaluation of the peso on Wednesday, rekindling fears that Latin America might be the region to spark the next phase of the financial crisis.

That was followed by some gloomy corporate news from Japan yesterday. Electronics group Hitachi said it expected to post a loss of Y250bn in the current year, after taking a Y160bn restructuring charge. Hitachi, well known in the west for its consumer goods, has had particular problems in the semiconductor business.

Meanwhile, Toa Steel said it would liquidate itself in March next year, with its parent NKK facing losses of Y60bn in consequence.

Throw in another decline in the rouble and there was plenty of evidence that the economic fallout from the Asian and Russian crises was far from over.

"The risk has got to be growing that the global emerging market bear phase is going to have a marked influence – on the margin – to US earnings and this leads one to conclude it is at best a wounded S&P 500 bull market, at worst a terminal bull market," said Tim Love, SG's global emerging markets strategist. "We remain underweight the emerging market asset class and prize liquidity and positive cash-generating companies as well as our cash position."

One emerging market, Malaysia, managed a further rally but foreign investors were still struggling to come to terms with the government's capital controls. Many were trying to get clarification of the details but, in the medium term, the lack of liquidity in the market will pose a particular problem for open-ended funds.

European markets lost most of the gains they made on Wednesday in the face of the global worries, a weaker dollar, which to a nine-month low against the D-Mark, and an early sell-off on Wall Street. The Dow Jones Industrial Average, having finished 50 points lower on Wednesday, lost 100 points by late morning.

The weakness of the US stock market has been seen as dragging down the dollar in recent weeks.

Having peaked at about Y147 in mid-August and traded at DM1.81 as recently as last week, the US currency was down to Y134 and DM1.72 yesterday.

This could have worrying implications for investors, since the most rapid phase of the equity bull market coincided with the period of dollar strength since 1995.

Wall Street depressed by financials

AMERICAS

US shares followed overseas equity markets lower throughout the morning session, sending the Dow Jones Industrial Average more than 120 points lower at one stage, *writes John Labate in New York*.

However, by early afternoon stocks were off their worst levels, although trading remained unstable with sentiment still suffering from Monday's shakeout of more than 500 points.

In afternoon trading, share prices seemed stuck in a tight range. As equities were sold off, bond prices rallied across the maturity range. Anticipation mounted in advance of the week's employment report, due out today and widely expected to show a still-strong labour market.

By early afternoon the Dow was down 101.95 or 1.3 per cent to 7,680.42, while the broader Standard & Poor's 500 was off 10.55 to 979.92. Thursday's sell-off touched most sectors, with lower technology share prices driving the Nasdaq composite down 17.40 to 1,575.45.

Financial shares were the hardest fallers among Dow shares. Travelers tumbled more than 7 per cent or $3 5/16 to $41 5/16 and American Express fell $5¼ to $78¾. A handful of shares pushed higher, including Chevron, up $1 1/16 to $75. Minnesota Mining and Manufacturing also climbed $1 1/16 to $70 9/16.

Brokerage and banking shares fell back as overseas markets plunged. Hambrecht & Quist fell $2⅞ to $19 15/16 and Donaldson, Lufkin & Jenrette lost $2¾ to $31¾. Citicorp plunged more than 6 per cent to $101 1/16.

Semiconductor shares were mostly lower despite a sharp rise in Intel shares. Intel, the chip industry leader, climbed $3 1/16 or more than 4 per cent to $77 11/16 after Morgan Stanley raised its earnings estimates for 1998 and 1999.

Retail stocks were mixed on the release of August store reports. Gap shares surged more than 10 per cent to $53 after reporting a 9 per cent rise in sales.

Best Buy also rose strongly, up more than 7 per cent or $47 11/16 on the release of record second-quarter sales that were above expectations.

TORONTO pushed modestly higher in early trading in spite of renewed weakness on Wall Street.

Most brokers pointed to the foreign exchange market and a rally for the Canadian dollar which helped mitigate poor results from Canadian Imperial Bank.

But an upbeat performance from the heavyweight golds also lent support to sentiment with Barrick adding C$1.15 at C$22.40 and Placer Dome C$1 at C$15.

The upshot was a 4.62 improvement to 5,687.10 in the 300 composite index at the noon calculation.

The currency gains took the heat off the money markets and, in the more settled climate for interest rates, selected banks pushed ahead.

Royal Bank of Canada gained 15 cents to C$60.60. Canadian Imperial, though, lost 30 cents to C$29.90.

Among industrials, Alcan Aluminium added 45 cents to C$32.10. BCE hardened 5 cents to C$51.95 but Northern Telecom shed C$1.75 to C$78.50.

Caracas plummets 6%

CARACAS was a big loser at midsession, down about 6.5 per cent in response to the gloomy global market outlook and news that the government had failed to sell off its aluminium holding company.

By midday, the IBC index was 191.28 lower at 2,757.38.

The tumble came after the government formally called off next Monday's auction of the aluminium company after the last qualified bidder pulled out on Wednesday.

Among individual stocks, telephone monopoly CanTV shares were trading 85 bolivars or 8.1 per cent lower at 965 bolivars.

SAO PAULO picked up from its lows at midsession, but was still more than 5 per cent down on the day as declines in the US and Europe set the tone for a gloomy session.

The Bovespa index was 383 lower at 6,422 as benchmark Telebrás fell R$3.70 to R$81.80.

Dow and dollar dent Dax

EUROPE

Weakness on Wall Street and in the dollar depressed **FRANKFURT**, where the Xetra Dax index registered a fall of 151.38 or 3.1 per cent at 4,797.13 by the end of electronic trade.

Russia's tribulations remained a drag on the banks. Dresdner, which said its unsecured loans to Russia totaled DM1bn, fell DM5.06 to DM73.10.

Commerzbank gave up DM2.30 to DM50.55 and Deutsche Bank was DM5.90 lower at DM107.10.

BMW was a big loser among the cars, down DM80 to DM1,201 as the Quandt family, a major shareholder, dismissed speculation it planned to change its equity holding in the company.

On Wednesday, Ferdinand Piëch, the VW chairman, reportedly said his company might acquire about 25 per cent of BMW. VW lost DM9.45 to DM121.05.

Against the trend, Deutsche Telekom picked up DM1.05 to DM50.30 amid speculation that Microsoft was interested in its cable television business.

ZURICH turned back after Wednesday's rally on profit-taking and renewed worries about the banking sector. The SMI index closed a volatile session 235.8 or 3.5 per cent lower at 6,605.1.

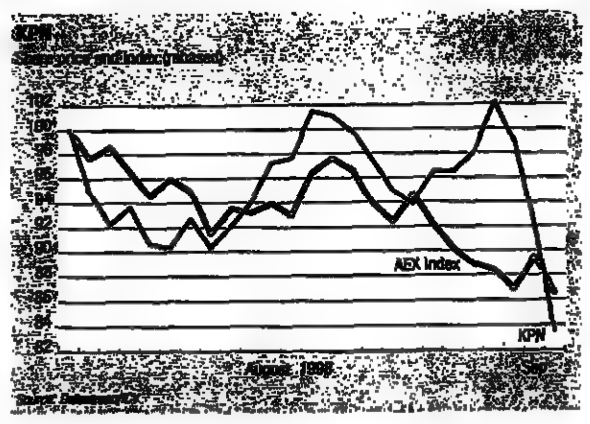
Overseas selling hit the banks as speculation continued about their exposure to emerging markets and after a rumour, promptly denied, that CS Group chief executive Lukas Muehleman was resigning.

CS tumbled SFr24.25 or 9.7 per cent to SFr224.75 and UBS dropped SFr39.50 or 8.1 per cent to SFr450.

The insurers were also lower. Swiss Re fell SFr68 to SFr3,260 in spite of Wednesday's first-half net profit figures, which beat many expectations.

Zurich lost SFr36 to SFr884 ahead of an announcement after the market closed that it was considering a proposal to sell its reinsurance business in London.

SAir Group lost SFr17 to SFr363 as investors digested news of the Swissair crash.



AMSTERDAM moved steeply lower in heavy volume amid rumours that a number of option traders had run into difficulties. The AEX index ended off 30.43 or 2.8 per cent at 1,069.83.

Philips shed Fl 5.60 to Fl 123 while among financials ABN Amro lost Fl 3 or 6.4 per cent to Fl 43.80 in 15.3m shares traded. But the big faller was telecoms group KPN, which ran into a squall of tariff reduction concerns.

A press conference planned for today by Opta, the Dutch telecoms regulator, is expected to announce a range of price cuts.

KPN fell Fl 7.10 to Fl 74 in 5.9m shares traded to extend its decline to 16 per cent in two days.

Royal Dutch pushed ahead to Fl 92 on news of its European refining alliance with Texaco of the US, but fell back in late trading. The stock, heavily dealt at 9.3m shares, closed off 10 cents at Fl 88.60.

Retailer Ahold managed to keep its head above water, adding 60 cents at Fl 61.90 following an upbeat first-half trading statement.

PARIS fell 2.2 per cent on the CAC 40 index with the banks again under pressure and and Renault and Peugeot both falling more than 5 per cent. The benchmark ended down 83.21 at 3,648.46 in 21m shares traded.

Russian lending worries among the banks were given a fresh twist by Société Générale, which announced plans to take provisions in its first-half results. SocGen shed FFr64 to FFr936. BNP came off FFr23 at FFr352 and CCF retreated FFr33.90 or 7.8 per cent to FFr400.10.

Renault tumbled FFr13.20 to FFr240.20 and Peugeot FFr51 to FFr942. France Telecom, the benchmark's leading heavyweight, came off FFr23.50 at FFr428.50.

Oils were a firm feature with Elf Aquitaine adding FFr18 to FFr611 on the oil price recovery, some relief at interim results and hopes for reduced European refining capacity following the Royal Dutch deal with Texaco. Total advanced FFr20 at FFr698.

Sanofi jumped FFr40 or 5.8 per cent to FFr730 after a round of broker upgrades after the group's first-half results. Goldman Sachs held its target price at FFr790 but lifted earnings estimates for this year and 1999 by 3 and 4 per cent respectively.

OSLO witnessed a sharp retreat by Anglo-Norwegian construction and shipbuilding group Kvaerner on worries about the corporate outlook after poor first-half results.

Kvaerner lost NKr35 to NKr121.50, its lowest level since 1992 and after a 1998 high of NKr381 in January. The disappointing results were compounded by a local press report questioning whether there might be "hidden bombs" worth billions of krone in the accounts.

Merkantildata, the information technology and systems integration company was another sharp loser, down NKr11 to NKr67.

Analysts were offering a number of explanations, including a suggestion that its acquisition of DanaData was turning into an expensive deal because of the depreciation of the Norwegian krone against the Danish currency.

The general index dropped 36.17 points to 927.72.

MOSCOW took another tumble after three days of relative stability, with the RTS index losing 4.2 or 6.4 per cent to 61.43, just above the market's all-time low of 61.15. Turnover, however, was a minute $1.8m.

Written and edited by Michael Morgan, Jeffrey Brown, Peter Hall and Paul Gregen

Toyota issues rand warning

SOUTH AFRICA

Johannesburg tumbled 2.5 per cent, hit by the renewed weakness on Wall Street and a warning by Toyota South Africa that high interest rates and a weak rand would have a negative impact on 1998 profits.

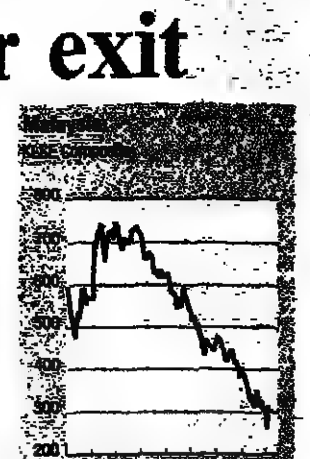
The overall index lost 120.3 to 4,791.1 and industrials fell 3.1 per cent to 5,627.1. Golds gave up 0.7 per cent to 820.5, depressed by dull bullion.

McCarthy Retail plunged 45 cents or almost 24 per cent to 145 cents after the company posted a massive loss for the year to June 30.

EMERGING MARKET FOCUS

KL investors head for exit

Malaysia's benchmark index is 70 per cent below its peak before the regional financial crisis began and many shares are trading below their initial offering price. But that has not been enough to tempt investors.



Brokers say investors have continued to call but rarely to place orders. They wanted to be kept informed of developments in order to spot a turning point.

As of this week, however, most foreigners are no longer interested. The government in Kuala Lumpur imposed sweeping capital controls restricting foreigners selling shares from repatriating profits for a year.

"It's basically a jail sentence for your capital," said a foreign strategist, who declined to be named for fear of retribution. "It's kind of spooky out there."

Brokers said foreigners frantically called when the measures were announced, ordering them to sell their shares in a rush to get their money out of the country in a year - if that is how long the government requires - rather than waiting even a year and a day.

"People will take a hard look at Malaysia and ask: 'Do I really have to be in this market?'," said Audrey Ho, head of research at Paribas Asia Equity. "Who knows what they'll do next."

But many locals are not waiting to find out. The capital controls also require the billions of ringgit held offshore to return within a month or be declared illegal tender.

Analysts say much of that money will flow into Malaysia's stock market for lack of a better place. Banks are rapidly lowering interest rates in a desperate attempt to reverse the recession, so there will not be much to gain from depositing funds in financial institutions.

But the knowledge that money will return to the market will not be enough to draw all local investors in, analysts warn. They say many are concerned with the lack of progress on government attempts to revive banks and, thereby, corporations. It was largely this that kept investors out of the market in recent months.

The economy is now in recession and investors want to know the extent of corporate debt and cash flows. An increasing number of companies are seeking court protection from creditors as they restructure.

Malaysia plans to buy non-performing loans and assets from financial institutions and recapitalise the banks so they can resume lending. But the authorities do not want to pay the price demanded by international capital markets for foreign money, and economists say it will be difficult to raise all the money needed for the plan locally.

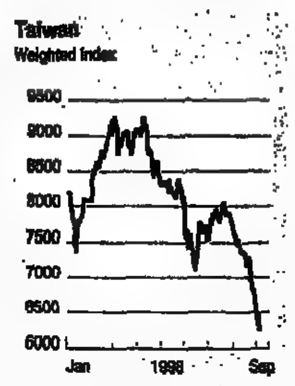
Economists now worry whether reform will even take place at all in light of the capital controls. "Bringing in exchange controls is not necessarily bad as part of a comprehensive clean-up," said Hugh Young, managing director of Aberdeen Asset Management Asia. "But if it is to avoid a comprehensive clean-up, as we suspect in this case, it's rather sad."

Sheila McNulty

Taipei tumbles to two-year low

ASIA PACIFIC

On a down day for Asia generally, **TAIPEI** produced the region's steepest fall, sliding 3.4 per cent or 220.30 to 6,251.38 on the weighted index, the lowest close since September 1996. Volume remained thin, however, with turnover shrinking further to T$81bn.



Foreign investors were net sellers for the second day running. The main areas of nervousness were electronics and financials, which fell 5.7 per cent and 3.1 per cent respectively. Acer was down T$1.40 to T$29.60. Taiwan Semiconductor tumbled by the daily 7 per cent limit, closing off T$4 at T$57.50.

TOKYO fell after electronics giant Hitachi warned of losses for the first time in its history, *writes Alexandra Harney in Tokyo*. The Nikkei 225 Average lost 115.38 at 14,261.24, after moving between 14,207.84 and 14,368.28.

Hitachi plunged 7 per cent or Y54 to Y706, dragging other electronics shares with it. NEC, the electronics and computer group, was down Y41 to Y1,003. Fujitsu slid Y44 to Y1,360. Toshiba, another big electronics group, lost Y21 to Y518. Oki Electric, which announced a tie-up with Compaq, the computer group, and GlobeSet, the US software company, to launch an email commerce programme in Japan, lost Y14 to Y280.

The banking sector was mixed amid continued uncertainty about the fate of a banking bill now under debate in parliament. The bill would help banks resolve their staggering bad loan problems.

Sakura Bank led the market in volume, finishing Y8 lower at Y274. Long Term Credit Bank of Japan held steady at Y51. The Bank of Tokyo-Mistubishi was up Y25 at Y1,113. Sanwa Bank improved Y41 to Y910.

Steel shares were also hurt by reports that Toa Steel, a subsidiary of the number-two steel maker NKK, would file for bankruptcy. Trading in shares of NKK was suspended, but the stock lost Y11 to Y113 before the halt. Toa plunged 17 per cent or Y13 to Y63 before its suspension. Iron and steel shares overall lost 3.3 per cent.

The trading volume was thin at 375m shares. The Topix index of all first-section shares fell 4.98 to 1,113.77. In Osaka, the OSE lost 145 at 15,297.

SINGAPORE extended its decline this year to 46 per cent with the Straits Times index slipping 15.15 to 812.70. Banks stayed in the firing line on worries about exposure to Malaysia. The main finance index fell 5.4 per cent. OCBC foreign shares lost 34 cents to S$3.90 and OUB foreign shed 14 cents to S$2.

JAKARTA closed higher as the government's move to lift subsidies on commodities, apart from rice, boosted hopes for further deregulation in agriculture.

The composite index finished 5.16 or 1.6 per cent higher at 334.79.

Plantation stocks were higher in response to the government's move.

London Sumatra rose Rp175 to Rp1,225, Bakrie Sumatra gained Rp125 at Rp750 and Astra Agro gained Rp150 to Rp1,975.

The upbeat mood spilled over to food groups. Indofood put on Rp375 to Rp2,025 and Mayora picked up 50 to Rp400.

HONG KONG edged back after a roller-coaster ride and brokers said the market would have suffered larger losses had it not been supported by short-covering in the wake of last Friday's exceptionally heavy trade.

The Hang Seng index fell 37.08 to 7,318.59 after drifting between 7,201.44 and 7,525.75. Turnover rose to HK$6.3bn from Wednesday's HK$5.8bn.

China plays outperformed with red chips gaining 2.6 per cent to 67 and H shares were 4.9 per cent higher.

WELLINGTON fell 26.86 or 1.5 per cent to 1,775.67 on the 40 capital index. Forestry stocks were notably weak. Fletcher Paper plunged 14 cents to NZ$1 and Carter Harvey Holt lost 12 cents at NZ$1.18.

هكذا من الاصل

RECRUITMENT

RICHARD DONKIN

Democratic revolution

A new report of top executives points to greater sharing of power and information

If you look back in history, the development of civilisations tends to follow familiar patterns. There is a struggle for ascendancy among various tribes, leading to the establishment of the nation state under a powerful ruler heading a governing body made up of loyal supporters.

The system can work successfully as long as the powerful rule can be extended. Inevitably it breaks down, often within a generation or two, as a result of weak succession.

Most companies, like early nation states, are effectively corporate dictatorships. They suffer from the same problems of succession and, like emerging powers, they often flourish and expand in a blaze of acquisitions, then stagnate and turn in on themselves.

Some corporate empires, such as Hanson, break apart. Others, like IBM, try to dominate the world only to find their success undermined by a new and emerging system.

As countries mature they find themselves absorbed by the development of a workable system of government. Sometimes change is forced by revolution; sometimes it is more protracted. The desire, ultimately, seems to be to establish a system that delivers a fair and just society at peace with itself.

Companies differ in that their aim is to deliver profits for shareholders. But underlying this goal has to be a long-term desire for stability. A company's role in society, therefore, must be aligned with that of the population it serves.

There seems to be a growing understanding among large companies, forced partly by the collapses of the early 1990s and the consequent strengthening of corporate governance, that their success and survival depends on external as well as internal factors.

Internal processes, such as succession planning, can be influenced by boardroom policy. But companies are finding that they must also address external problems such as skill shortages. Such concerns are stimulating new thinking about the way companies should be run. Some of these ideas have been captured in a study carried out by the Economist Intelligence Unit for a Korn/Ferry International report.

The research surveyed 160 senior executives in a broad sweep of businesses across the world and interviewed a further 75 top executives.

The study finds business leaders are continuing to occupy the paternalistic command and control role. But, when it asks the executives where they need to be in 10 years' time, there is a consensus that their style needs to change. They describe future leaders as entrepreneurial, visionary and prepared to share information and power.

Some 44 per cent of the respondents expected responsibility and accountability to be decentralised among operating units and regions. This, says Korn/Ferry, will require an ability among top executives to delegate responsibility, to inspire greater co-operation across functions and to promote more effective team-building. Another strong constituent of the predictions is a belief that customer satisfaction and shareholder value as measures of effective leadership are going to become more important than profitability.

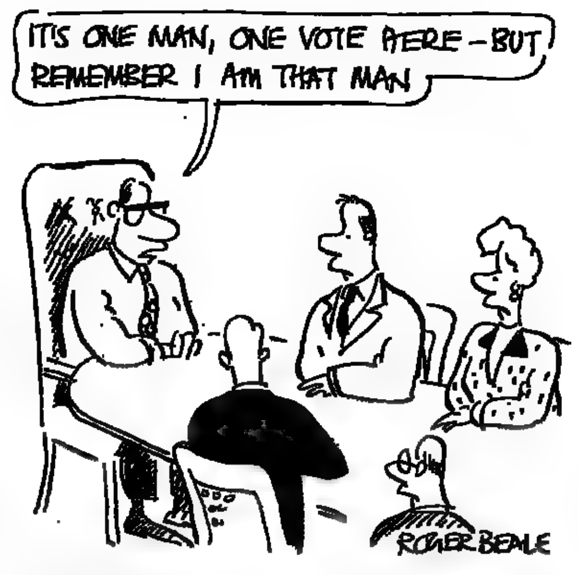
The business leaders questioned in the survey also expect boards and their top management teams to become more diverse, with more women and people from different national and cultural backgrounds taking the top jobs.

Leadership, it seems, is breaking out all over. Tomorrow's company, says Korn/Ferry, will be managed by a team of leaders. Does this mean that companies will more closely mirror the governments of settled democracies? It seems a logical development.

The idea that a chief executive should work to some kind of democratic mandate is enough to make many business leaders cringe. The last thing they want is to be made accountable for their actions.

But corporate democracy, of a sort, is already with us. Chief executives may not be elected but they are certainly deselected. As the report concedes, succession planners are having to contend these days with the "three Rs" – removal, retirement or recruitment of a chief executive.

Removal, says the report, is becoming much more common, particularly in the US, as large institutional investors flex their muscles.



This, in itself, is influencing changes in leadership styles.

Contrast this research with the trivia about ties and beards distinguishing high- and low-fliers pushed out by KPMG Management Consulting in its annual British Business Leadership Survey last week. Get a yellow geometric tie and a good shave, it seems, and you're heading for the top.

The study defined high-fliers as those who have managed companies with profitability growth of 30 per cent or more whereas "low achievers" are those with companies that have not grown in profitability. There are clear absurdities in such definitions. How many of those in the 30 per cent and upwards group, for example, will be able to sustain such growth? And how many of those in the unprofitable part are undertaking some form of transition in their businesses? Today's high-flier can easily become tomorrow's under-achiever.

More worrying is that 200 board directors of companies with an annual turnover of more than £50m bothered to respond to the survey. More worrying still, is that many could not name their favourite business leaders. Some merely put "top person at Shell" or "the man who runs Rentokil". The corporate democracy begins to look more attractive by the minute.

For information about the Korn/Ferry report contact Ruth Grierson, tel +44 171 312 2249

richard.donkin@FT.com

WORKING BRIEFS

Popularity of all-round assessment on the increase

The use of all-round assessment, better known as 360-degree feedback, is growing rapidly, according to a report by Towers Perrin, management consultants.

The research, which surveyed 380 employers from 15 countries, found that all-round assessments – where opinions on an employee's performance are sought from managers, peers, subordinates and sometimes from customers – were used most commonly among senior executives. But many companies that plan to introduce the process intend it to be far more widespread.

More than half of companies using all-round assessments have introduced it as a voluntary process and most use it for training and development. A minority uses it for promotion and pay awards.
Julia Lampshire, tel +44 171 806 6262

Which? rights

Greater use of flexible working patterns has led to uncertainty among many people about their employment rights. Which?, the consumer organisation, has published a new guide to employment in the UK, outlining the legal obligations and rights of employees and employers, including various changes in European employment legislation. A chapter on maternity rights, which can be confusing for both employers and employees, includes a maternity benefits calculator. The book is aimed at a broad readership but personnel managers might also find it useful.
The Which? Guide to Employment, £10.99

Productivity loss

Productivity among employees of companies undergoing restructuring programmes involving job losses can drop by as much as 3½ hours during a typical eight-hour day, according to statistics from the US Department of Labor quoted in Manpower's monthly newsletter. The report suggests that companies anticipating job cuts should prepare the ground well ahead of the announcement. The report also quoted an American Management Association survey of 500 US companies that had cut jobs. Three-quarters said morale had collapsed and two-thirds found no increase in efficiency.

BANKING FINANCE & GENERAL APPOINTMENTS

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The corporate Credit Department in Frankfurt is responsible for the approval of all transactions originated in Germany and Austria, for all products. Due to the current and expected increase in business volumes, we now need to expand the team by the addition of a Credit Officer and an Associate. The roles will have the following key responsibilities:

Credit Officer

- credit responsibility for a designated portfolio of names
- providing approval and recommendations for all transactions relating to the names
- liaising with product and transaction teams in understanding structuring and mitigating credit risk

Associate

- credit monitoring of a designated portfolio
- recommending ratings on all allocated counterparties
- instigating client visits for due diligence
- liaising with the product and transactions teams

You will be given the opportunity of having individual responsibility within the team and are likely to possess the following skills and experience:

- a graduate with formal credit training and a minimum of two years experience for the Associate and five years plus for the Credit Officer
- a broad exposure and knowledge of the different product areas
- an ability to interact and communicate effectively at all levels

If you have the necessary prerequisites please contact Colin Gibb on + 44 171 915 8845, or alternatively send your Curriculum Vitae to Robert Walters Associates, 10 Bedford Street, London WC2E 9HE or fax details for Colin's attention on + 44 171 915 8845.

E-mail: colin.gibb@robertwalters.com Web: http//www.robertwalters.com

You may also apply via http//taps.com/Robert_Walters quoting reference RW166.

ROBERT WALTERS ASSOCIATES

LONDON THAMES VALLEY AMSTERDAM BRUSSELS FRANKFURT NEW YORK HONG KONG SINGAPORE SYDNEY MELBOURNE BRISBANE WELLINGTON AUCKLAND JOHANNESBURG

Equity Research – Utilities Analyst

Developing high-quality utilities research with a global reach

At J.P. Morgan, a leading global investment bank, the continued growth of our European Equities business is creating further career opportunities in research. Based in London, our equity research effort focuses on selected pan-European sectors.

Our equity research in the utilities sector is growing as the trend towards privatisation and deregulation in continental Europe is maintained. Our focus is on electricity and water utilities. We are looking for a versatile utilities analyst who can play a generalist role in providing expert advice and support in response to both internal and external client needs.

As a member of the utilities team, you will gradually develop your own coverage of companies, probably in Southern Europe.

Your objective will be to analyse sector trends, forecast companies' results and, ultimately, make investment recommendations. The ability to prepare financial models and provide effective marketing support is key and will lead to the development of close relationships with fund managers and companies.

You will need at least a 2:1 degree in a business, economics or accounting discipline, preferably supported by an MBA. You have a corporate finance/equity research background or exceptional experience in industry or consultancy. Fluency in at least one other language, ideally Spanish, is also essential. You will have a high level of self-motivation, excellent verbal and written communication skills and the ability to work effectively as part of a team.

To apply for this role, please send a full CV quoting ref: 2232 to The Response Management Team, Associates in Advertising (AIA), 5 St John's Lane, London EC1M 4BH.

Closing date for applications is 21 September 1998.

JPMorgan

The Inter-American Development Bank, the largest regional multilateral development institution, based in Washington DC, invites the submission of resumes for the following openings in its expanding Private Sector Department:

SENIOR SPECIALIST / SPECIALIST - PROJECT FINANCE

Functions:

- Contribute to the Department's program of financing private investments in Latin America and the Caribbean region.
- Lead/participate in interdisciplinary teams responsible for the origination, appraisal and negotiation of infrastructure project finance.
- Supervise/participate in activities related to portfolio performance.
- Represent the Bank in public fora related to private infrastructure financing.

Requirements:

- Education: MBA Degree or equivalent.
- Experience: At least 10 yrs. of relevant experience (senior position), including six years, in project finance, preferably in infrastructure investments in emerging markets; at least 6 yrs. of similar experience for the other position.
- Languages: Proficiency in English and Spanish or Portuguese.

PORTFOLIO MANAGEMENT SPECIALIST

Functions:

- Assist in developing policies/procedures for project supervision and portfolio risk management.
- Review and participate in the portfolio monitoring process and operations.
- Make recommendations and provide credit/financial analysis to support decisions related to risk rating and specific loss allowances in the private sector portfolio.

Requirements:

- Education: MBA degree or equivalent.
- Experience: At least 5 yrs. of relevant experience in portfolio and risk management; 2 of these years at the international level. International experience in direct financing of private sector projects a plus, particularly in international loan portfolio management of loans in Latin America and the Caribbean.
- Languages: Proficiency in English and Spanish.

Interested applicants should send cover letter and resume (in duplicate), by September 15, 1998, including salary history, to:

Inter-American Development Bank Stop. E0507
Code: PRI/LB
1300 New York Avenue NW, Washington, DC 20577 USA
or Fax (202) 623-3014

As a reflection of its commitment to its borrowing member countries, the Bank may require staff to accept assignments in both country offices and headquarters. Only applications which best match the requirements of the position will be acknowledged. The Bank offers a competitive compensation package and encourages gender equality in its hiring practices.

هكذا من الاصل

ABBEY NATIONAL TREASURY SERVICES

Credit Risk Management

Credit Analysts - Various Levels

Salary £ Competitive - Central London

Abbey National Treasury Services plc (ANTS) is the wholesale banking operation of Abbey National plc, one of the UK's top twenty companies. ANTS is a major participant in the international financial markets with a reputation for responsiveness, innovation and professionalism, and assets of over £80bn.

The Credit Risk Management team plays an active role in the support of new business initiatives and ensures that the high quality of the asset base is maintained. ANTS' continued expansion and diversification into other asset categories has resulted in several new opportunities for credit professionals keen to participate in this dynamic environment. Potential candidates will possess experience in at least one of the following areas:

- **Securitisation**
- **Project Finance (UK and international)**
- **Corporates (preferably high yield or leveraged loans)**
- **Bank and Non Bank Financial Institutions**

Applicants should be proven credit professionals with relevant experience gained at a leading financial institution. Strong analytical skills and product knowledge will be combined with experience of cash flow modelling and ideally an appreciation of equity analysis.

Articulate and numerate, with self confidence and the ability to stand by your decisions, you will enjoy taking responsibility for your work and seeing projects through to successful completion. Successful candidates will be involved in a variety of assignments undertaking analysis, making recommendations and presenting proposals at board level. Working closely with the transaction underwriters, and as a key member of a lively team, you will possess the ambition and drive necessary to make your mark and build on your current skills.

In return, we will provide you with an attractive salary package commensurate with your experience and ample scope to develop your career and diversify into any of our other specialist business areas. To apply for this outstanding opportunity *please forward in strict confidence, your CV, current salary details and day/evening telephone numbers to Barkers Response Services, 1st Floor, Wellington House, Queensmere, Slough, Berkshire, SL1 1DB, quoting ref: 5056A.*

To support a healthy work environment, Abbey National operates a no smoking policy.

Abbey National positively welcomes applications from every section of the community

HEAD OF INTERNAL AUDIT

ABB Financial Services

ABB is a global US $35 billion Group serving customers in power, oil, gas and petrochemicals, automation, contracting, rail transportation and financial services. ABB employs approximately 220,000 people in over 140 countries.

ABB Financial Services is one of seven Business Segments within ABB and offers a wide array of financial services including sales support financing, treasury, leasing, asset management and insurance, to both ABB companies and external customers.

Internal Audit acts as a management function, identifying and recommending improvements to management. As Head of the Global Internal Audit function you will report directly to the group executive responsible for Financial Services and be based in Zurich.

Responsibilities:

- Conduct operational audits to identify crucial business risks
- Ensure effective internal control processes are implemented and adhered to
- Add value to management and improve operational efficiency
- Manage the department, operations, people and budgets

Qualifications:

The ideal candidate will possess a degree in a financial discipline and have ten years professional audit experience in banking and finance. Knowledge of best practice risk assessment, IT audits and Computer Audit Assisted Techniques are vital. International experience is a pre-requisite. Strong leadership, coaching and communication skills are required. Creativity, judgement, diplomacy and a pro-active, results-orientated management style are essential.

Please send full personal and career details, including current remuneration and daytime telephone number, *quoting reference ABB/121 to Susannah Pringle at LAI International 2nd Floor, Berkeley Square House,* Berkeley Square, London W1X 6EA.

LAI International — ABB

LAI INTERNATIONAL 2ND FLOOR BERKELEY SQUARE HOUSE BERKELEY SQUARE LONDON W1X 6EA

OUR CLIENT IS A GLOBAL DIVERSIFIED MANUFACTURER OF AIR CONDITIONNING SYSTEMS, PLUMBING PRODUCTS, AUTOMOTIVE EQUIPMENTS, EMPLOYING 44 000 PEOPLE, WITH A TURN OVER OF US $ 6 BILLIONS. ITS AUTOMOTIVE ACTIVITY IS EXPANDING AND NEEDS TO DEVELOP ITS IT DEPARTMENT. THIS DEPARTMENT, CURRENTLY LOCATED TO THE EAST OF PARIS, IS LOOKING FOR TALENTED PEOPLE TO FILL THE FOLLOWING POSITIONS

INTERNET/INTRANET ARCHITECT Ref. WCF 01

The Internet/Intranet architect is part of the infrastructure team and brings his/her expertise on the Internet/Intranet technology to the group. Is responsible for all Internet and Intranet Web servers and services worldwide. Designs, develops and promotes the Intranet technology. Integrates the NT architecture, the Microsoft Intranet/Internet product line into the group. Manages all Web services, maintains and upgrades servers, software standards and security. Proposes and validates intranet applications concepts based on MS, ASP & SqlServer.

Enhances existing Web-based resources and develops them further to incorporate resources requested by users, maintains and updates users intranet.

Work with local business units authors to create and manage new Intranet sites using FrontPage and family tools.

To qualify, you must be fully literate in the above mentioned areas and have experience in Web production work in a Microsoft NT environment and give attention to detail.

A BS in Computer Science with 2 years extensive web project management is required with excellent organizational, writing and communication skills.

NETWORK COMPUTING SUPPORT Ref. WCF 02

Manages and deploys the defined Group Architecture for Network computing.

Is responsible for testing server applications and working with the hardware and network support staff to ensure reliable overall web operations, analyzing traffic to the different business units. Studies and defines potential evolutions such as ; Java/Active X Components use, NC/PC strategy MS Exchange client choice, Groupware software components, to optimize performance of software and servers.

Assists Business units to define migration plans to defined group Architecture. Provides network hardware and software support and assists Intranet users in solving system problems - Troubleshoots browser software and connectivity problems. Participates in the establishment of procedures for problem determination.

A minimum experience of 4 years in desktop management and support in a PC networked environment, with Microsoft products knowledge is requested along with good communication skills.

E-MAIL ADMINISTRATOR Ref. WCF 03

Serves as the E-Mail Microsoft system administrator and Multimedia products (video, conference, fax gateway, ...) support for the group. Coordinates all activities surrounding the management of that system including maintenance and operations, enforcement and interpretation of policies. Plans the migration and deploys new MS Exchange server in all the group units.

Evaluates and promotes the usage of Multimedia internally and externally with business partners. Works closely with users to assist them in resolving problems with e-mail communication.

Must have strong organizational and computer skills, along with the ability to integrate and work effectively in a team environment.

A Bachelor's degree in computer science, information systems, mathematics or related field with 2 years of experience in computer systems administration or support is preferred, along with Basic understanding of operating systems and networking protocols.

All the above positions require an excellent command of English, intensive travelling, valid EEC working papers and are located in the Paris area.

Salaries range from 250 000 FF to 350 000 FF depending on position and experience (relocation compensation to be negociated).

Please send your CV and covering letter, specifying reference, to

COGEPLAN 2, rue Louis David - 75782 PARIS CEDEX 16 - FRANCE
E-mail:groupe@cogeplan.com

Investment Institution

United Arab Emirates Based

Excellent Career Opportunity *Competitive Remuneration Package*

Our client, the Abu Dhabi Investment Authority (ADIA), is a prominent investment institution in the United Arab Emirates. Established for over 20 years, it is a major player in the global equity and financial markets. Due to expansion, our client is now seeking to appoint two qualified Investment Analysts with expertise and knowledge to explore new opportunities and markets of the Middle East and North Africa.

The Tasks

The two candidates will be required to assist in:

- *The identification of investment opportunities and acquisition targets.*
- *The preparation of business valuations, viability studies and qualitative/quantitative analyses, all of which should assist management in reaching sound business decisions.*
- *The development of acquisition criteria and strategy specific to each investment under consideration, prior to approaching targets.*
- *Liaising with external advisors and other investment parties connected with the deals.*

The Candidates

	Senior Investment Analyst	***Investment Analyst***
Age:	*between 35 and 40*	*between 25 and 30*
Experience:	*10-15 years of relevant experience*	*minimum 5 years of relevant experience*
Qualification:	*MBA, CPA, CA or CFA should be fluent in written and spoken Arabic and English*	*MBA, CPA, CA or CFA should be fluent in written and spoken Arabic and English*

Qualified candidates should forward their Curriculum Vitae together with a recent photograph and expected remuneration package before 18 September 1998 to Ernst & Young Executive Recruitment Division, P.O. Box 136, Abu Dhabi, United Arab Emirates, Fax No. + 9712 722968.

Please quote reference number 211. Only those candidates who are short listed will be contacted.

ERNST & YOUNG

REPRESENTATIVE FOR THE NETHERLANDS

EASDAQ

EASDAQ's mission is to create a European stock market which is liquid, efficient and fair, where fast growing companies with international aspirations can raise capital from interested investors. EASDAQ is a screen based stock market enabling companies, intermediaries and investors to have direct access wherever they are located. Trading is well regulated and cost-effective, and companies benefit from a broad range of European and overseas investors.

EASDAQ is searching for a senior level representative to oversee and manage its soon-to-be-opened representative office in the Netherlands. Based in Amsterdam, the representative will be responsible for maintaining and developing business contact with:

- IPO candidates and companies already trading on EASDAQ
- the banking and brokerage community
- the financial press
- institutional investors

Reporting to the Head of Business Development, the representative should have the following profile:

- A strong academic background in Economics, Business Administration or Finance and have gained at least 10-15 years experience in the corporate field
- Working experience in finance
- Excellent knowledge of the workings of a stock market
- Ability to market and develop EASDAQ's position in the Netherlands
- Fluent written and spoken English with other European languages a great bonus
- Enjoy working within an international team
- Excellent analytical and communication skills.

This is an unique opportunity to contribute to the development of EASDAQ in the Netherlands. The compensation package will reflect the importance of the role.

If you are interested in working for the European Stock market, please send a full CV to:

EASDAQ S.A., to the attention of the Chief Operating Officer, Koloniënstraat 56, Box 15, 1000 Brussels, Belgium

Tel: 322 227 6520 Fax: 322 227 6567

Commerzbank AG is a leading international German bank. Our banking business is growing rapidly and we are an active participant in global financial markets.

CREDIT ANALYSTS

with 2-3 years' experience

Our Risk Management team is independent of the product groups and is responsible for company and transaction analysis of major British and international corporates. Its expertise has been recognised by internal promotions and there is scope for progression into other areas of the group. Investment banking business continues to grow rapidly, especially in international structured and project finance, which is reflected in the increasingly complex nature of the transactions to be analysed. We seek two credit analysts: the first vacancy will be a significant role for an analyst with some experience in structured transactions and calls for at least 3 years' quality credit analysis experience and the ability to produce a swift and authoritative analysis. The second calls for less experience (18-24 months), but the candidate must have the capacity to progress speedily. These positions are important for the further development of the business. Applicants must be of high intellectual calibre, with credit training from a leading bank, together with the personality to contribute substantially to the team and to the quality and development of the credit process.

For the right candidate an attractive remuneration package will be negotiable. Please send applications, in strict confidence, with full career and salary details and quoting reference CA7723/FT to our consultants: CJA, 2 London Wall Buildings, London Wall, London EC2M 5UX, fax 0171 256 8501. Applications sent to Commerzbank will be forwarded to CJA.

COMMERZBANK

Analysts

Credit, Risk & Research

Packages From £60-£125k + Benefits

Jonathan Wren is seeking, on behalf of its USA and major global European Banking clients, Credit, Risk and Research Analysts for a range of specialist roles including fixed income credit research; market, product, VAR and exposure risk management; and counterparty credit, particularly emerging markets, Banks and NBFI's.

All candidates must be well educated, experienced team leaders/players. We also need Analysts with special experience with high yield and leveraged loans (USA/UK) to meet with issuers to prepare and value credit information for loan transactions and write industry reports for publication.

All CVs with details of current remuneration to Ron Bradley at the address below.

JONATHAN WREN

Jonathan Wren Search & Selection Limited
34 London Wall, London EC2M 5RU
Telephone 0171 588 0828 Facsimile 0171 588 0829

30 YEARS

SEARCH & SELECTION

هكذا من الاصل

A LEADING SWISS PRIVATE BANK IS SEEKING A

Senior Private Banker - Saudi Arabia

TO JOIN THEIR SUCCESSFUL MIDDLE EAST CLIENT GROUP IN GENEVA.

Reporting to one of the bank's partners, you will assume responsibility for further developing the already existing clientele in the Kingdom of Saudi Arabia. Thanks to your excellent contact base and your strong negotiating, you will win the confidence of a select group of clients to whom you will offer the bank's sophisticated discretionary investment management services. While travelling through the region, you will be able to rely on the support of a competent organisation. Prerequisites are successful front-oriented private banking experience, as well as fluency in English and, ideally, French and Arabic. The attractive compensation package reflects the strategic importance of this position. Our Managing Partner, Vincent H. Domine, will be happy to provide you with more information in full confidence.

D & P
MANAGEMENT SELECTION
A service of Domine & Partners

14, RUE DU RHÔNE, CH-1204 GENEVA, TEL: +41/22/738 89 55, FAXCENTER: +41/22/781 32 52, MAIL@DOMINE.COM, WWW.DOMINE.COM/D&P

EUROPEAN BANK
SENIOR CREDIT ANALYST

The London Branch of a well established European Bank is looking for a highly motivated and talented [illegible] to join a small but ambitious team, to consolidate [illegible] the existing business.

The successful candidate should have at least [illegible] analytical experience in a UK and International [illegible] department matured in a British based [illegible] complemented by the ability of preparing [illegible] Management and lending proposals for the [illegible] Committee.

Legal Knowledge a plus.

Competitive salary in line with skill and experience.

Please send CV and current salary [illegible]
Financial Times
One Southwark Bridge
London SE1 9HL

ACCOUNTANCY APPOINTMENTS

Group Tax Manager

London **£ Competitive**

Our client is a worldwide media organisation that owns, operates and develops national and regional commercial television stations in the emerging markets of Central and Eastern Europe.

Due to continued expansion, the company now seek a Group Tax Manager.

Based in London and reporting to the Finance Director, responsibilities will include:

- Managing various tax projects including mergers, acquisitions and new developments.
- Managing external advisers with regard to corporate tax compliance and efficient tax policy.
- Providing advice on the structure of future business in Central and Eastern Europe.

Our client is looking for an exceptional individual who has the ability to think creatively and communicate with all levels in the organisation. You will be qualified in accountancy or tax with at least five years experience working in industry/commerce and have a good understanding of international corporate tax including US issues. Experience working in Eastern Europe is preferable but not essential.

This is an excellent opportunity to broaden your experience in a fast moving dynamic organisation.

To apply, please write to Donald McFarlane CA, enclosing a CV, at Michael Page Taxation, Page House, 39-41 Parker Street, London WC2B 5LN or fax him on 0171 831 6662. Please quote reference 446903. Alternatively, e-mail: donaldmcfarlane@michaelpage.com

Michael Page
TAXATION

Australia • China • France • Germany • Hong Kong • Italy • Netherlands • New Zealand • Singapore • Spain • UK • USA

HUMBROL AIRFIX

Finance Director

c £40,000 + FX Car + Bens + 20% Bonus + Equity Opportunity

Humbrol is a £15 million turnover subsidiary of a substantial international investment Group.

Our Hull based client, whose products include Airfix and Heller model kits and Humbrol paints and adhesives, is a leading household name. Its products are sold worldwide in more than 60 countries through a network of toy and hobby distributors, as well as major DIY channels.

Committed to a new and aggressive growth strategy, it now seeks to recruit a Finance Director of the highest calibre. Reporting directly to the Chief Executive, you will be responsible for:

- Managing the finance function which will incorporate areas such as monthly management accounts and associated commentaries, statutory returns, cashflow management and projections.
- Administration management and control of data processing and personnel which together with finance incorporates a team of 15 people.
- Maintaining, developing and building relationships with other key members of the management team, in areas such as sales, export and manufacturing.

With a proven track record of achievement ideally in manufacturing, you will be a highly commercial hands-on finance professional possessing excellent interpersonal, presentation and leadership skills. An effective and committed team member who is receptive to change, you will be capable of communicating at all levels within the business.

This is an excellent opportunity offering excellent future prospects. If you feel you have the necessary skills and experience, please write in strictest confidence, enclosing a comprehensive curriculum vitae, details of current salary and a daytime telephone number, to James Newman, at Michael Page Finance, Leigh House, 28-32 St Pauls Street, Leeds LS1 2PX, fax number 0113 243 3177, or e-mail: mpf.leeds@michaelpage.com www.michaelpage.com Please quote ref 444443.

Michael Page
FINANCE

Australia • China • France • Germany • Hong Kong • Italy • Netherlands • New Zealand • Singapore • Spain • UK • USA

Lead Accountant
Security Directorate

London **up to £44,800**

The Prison Service is now a well-established Executive Agency. Sound financial management is essential to the future efficiency of the service, and in common with other Agencies and government departments, the Prison Service is required to introduce Resource Accounting and Budgeting (RAB), accruals accounting and budgeting with a further analysis by aims and objectives. This will initially operate alongside the present Cash Accounting Systems before eventually completely replacing it.

We are now looking for a qualified accountant to initially work alongside the RAB Team to introduce new procedures and systems to produce accruals budgets and accounts for the Security Directorate, which has a total annual budget in excess of £300m. In due course, the position will also acquire a financial and accounting advisory role for the Directorate as responsibility for basic processing and report production transfers to the newly formed Service Delivery Directorate.

You must be a fully qualified CCAB Accountant with at least five years' post-qualification experience in industry or commerce. Experience of preparing accounts for a large company in accordance with the Companies Act is essential, as is the ability to communicate financial matters clearly to non-financial personnel. You should also be able to work within a team environment in a large organisation, and have highly developed knowledge of relevant IT systems. Knowledge of the construction industry, government accounting and detailed experience of handling fixed asset expenditure would be advantageous.

This position will be offered initially on a two year fixed term contract, with the possibility of extension or conversion to permanent status. The starting salary will be between £27,277 to £43,087, depending on qualifications and experience. In addition, a London Weighting Allowance of £1,776 pa is payable, and benefits include non-contributory pension scheme and restaurant facilities.

For further information and an application form, please contact: Joanna Murphy, Headquarters Personnel, HM Prison Service, Room 407, Cleland House, Page Street, London SW1P 4LN. Tel: 0171-217 6342. Fax: 0171-217 6102. The closing date for receipt of completed applications is 18th September 1998.

Applications are invited from candidates regardless of ethnic origin, religious belief, gender, sexual orientation or disability.

The Prison Service is an HM PRISON SERVICE Equal Opportunities Employer

Global Property Services Company

Financial Controller

Central London **£45,000+Car+Bens**

Our client is a division of the world market leader in real estate services. This acquisitive, US based group is listed on the NYSE and has a turnover of over $1bn, generated through four main client services; Brokerage, Financial, Institutional Management and Corporate.

The Corporate Services segment provides transactions management, advisory services and facilities management on an international basis, constituting a 'one-stop shop' for major corporate clients. The business is experiencing rapid growth and now requires a talented Controller to contribute to the development of the business throughout the Europe, Middle East and Africa division.

Reporting to a Managing Director and CFO, the successful applicant will be responsible for:

- Developing the Business Plan.
- Assistance in the development of a reporting system to identify all Facilities Management business.
- Setting up new control systems.
- Providing in depth commercial analysis of properties' financial statements.
- Training local staff on client accounting and software issues.
- Developing and establishing client relationships.

This opportunity will suit candidates fulfilling the following selection criteria:

- Graduate, qualified accountant with at least 3/4 years post qualification experience.
- Experience of property management or client accounting, ideally within a global business.
- Ability to manage multiple projects and unexpected issues.
- Excellent communication (ideally including languages) and managerial skills.
- Strong aptitude for IT.

The rewards include an excellent remuneration package and an opportunity to be centrally involved in a high profile new business launch.

Interested applicants should write, in the strictest confidence, to our retained consultants, Nick Brown ACA or David Craig at Walker Hamill Executive Selection, forwarding a brief résumé quoting reference NB 4806. Alternatively e-mail: nbrown@walker-hamill.co.uk

WALKER HAMILL
103-105 Jermyn Street
St. James's
London SW1Y 6EE
Tel 0171 839 1444
Fax 0171 839 5857

Leading US Investment Bank

International M&A and Corporate Finance - Newly Qualified ACAs

LONDON £ EXCELLENT

Morgan McKinley

Our client is a global investment bank with a leading presence and unique capabilities in mergers and acquisitions, equities and fixed income. It has advised on some of the largest and most innovative M&A transactions in recent years and combines strength in fixed income and equity origination with unparalleled global distribution capabilities. Supported by an exceptionally strong balance sheet, the bank has evolved to become a powerful force in every facet of the securities industry.

Outstanding opportunities for ambitious newly qualified professionals exist within the European Investment Banking Division. Successful applicants will be exposed to a growing international client base, working closely with industry specialists and regional coverage officers. They will be involved with the full range of investment banking activities including M&A, flotations and listings, privatisations, capital raising and strategic advisory assignments.

Candidates of the highest quality are sought:-

- Newly qualified ACAs from a top accountancy firm
- Experience of corporate finance or relevant special projects is useful but by no means essential
- A strong academic background, probably with a 2:1 honours degree or above and first time passes in professional examinations
- Team players with initiative, creativity and flair, together with a high level of motivation and commitment

This is a rare opportunity for ACAs to apply the business skills their professional training has given them in a dynamic US investment bank. Supported by a real commitment to training and development, including attendance on the bank's training programme in New York, successful applicants will be expected to take on early responsibility and play an active role in developing new business leads. The potential for talented individuals to progress in this stimulating and challenging environment is unprecedented and the prospects for remuneration are excellent.

Interested applicants should contact: Ian Jones or Alex Tracey at Morgan McKinley,
Wellington House, 125 Strand, London WC2R 0AP. Tel: 0171 557 7222 Fax: 0171 836 3477
email: ijones or atracey@morgan-mckinley.co.uk
Alternatively, you can also apply via http://taps.com/morgan_mckinley

MMc

HEAD OF INTERNAL AUDIT

EUROPEAN BANKING

CITY **£ EXCELLENT**

This European Commercial Banking Division of a Global Financial Services organisation provide a range of services to corporate clients, banks and other financial institutions, with a strong reputation in the arena of lending, treasury, trade finance and derivatives trading.

Due to internal restructuring, a new position has arisen for a Head of Internal Audit. The successful individual will be required to identify commercially viable business recommendations, assess risk and supervise projects. Particular emphasis will be placed upon the analysis of transaction flows for new and existing products.

The ideal candidate will bring a track record of project implementation, innovation change management and lateral thinking together with the management skills required to operate effectively in a position of seniority and to be a part of the Bank's Management Committee.

The ideal applicant will have the following attributes:

- a graduate accountant (ideally from a Big 5 environment)
- strong financial services background with at least 10 years' experience within the banking industry
- currently employed in the audit department of a bank or similar institution at Senior Management level
- have the ability to advise and act in a consulting role whilst maintaining the highest standards of professional independence

The above position will appeal to those individuals who want to be part of a senior management team within a challenging and stimulating environment where age is no bar to success.

Interested applicants should send a detailed Curriculum Vitae stating current package to Jason Garner or Ilona Laver at Robert Walters Associates, 10 Bedford Street, London WC2E 9HE. Tel: 0171 379 3333, or fax details on 0171 915 8714.

E-mail: ilona.laver@robertwalters.com

Web: http://www.robertwalters.com

You may also apply via http://taps.com/Robert_Walters quoting reference RW167.

ROBERT WALTERS ASSOCIATES

LONDON THAMES VALLEY AMSTERDAM BRUSSELS FRANKFURT NEW YORK HONG KONG SINGAPORE SYDNEY MELBOURNE BRISBANE WELLINGTON AUCKLAND JOHANNESBURG

CABLE & WIRELESS

OUTSTANDING COMMERCIAL OPPORTUNITIES

WATFORD **UP TO £40K + BENEFITS**

Cable & Wireless Communications' vision is to lead the world in integrated communications. It's a compelling idea. The Sunday Times called us,'One of the biggest and exciting companies to be formed in Britain for years'. Such enthusiasm is understandable, as never before have integrated communications been offered on this scale in the United Kingdom. In Cable & Wireless Communications, the pace of change, and opportunity to influence, gives finance professionals the room to make a real impact on commercial decisions. Indeed join the hub of our business at our Watford head office, and you will be free to stretch your accountancy experience and commercial know-how, uninhibited by routine.

A number of positions have become immediately available in the reporting group due to the relocation of the head office to Watford. These opportunities range in experience from newly qualified accountants to fully qualified accountants with up to three years' experience.

Key responsibilities for these positions include:

- provision of technical and commercial financial advice to the Group
- strategic financial projects (up to 40% of work load)
- preparation of the Group consolidation to US and UK GAAP
- development and production of the monthly and quarterly management reports
- production of interim, preliminary and other financial announcements to the Stock Exchange and SEC
- preparation of all SEC filings
- input and coordination of the statutory accounts for the entire group

These opportunities will require a commercially-focussed individual to gain a strong understanding of the Group operations and offer exceptional entry points to the company enabling the individual to gain a superb overview of the whole business.

To make a lasting difference, you'll need a good degree and high quality passes in a professional accountancy qualification (ACA/CIMA/ or ACCA). Compliment this with a persuasive personality, energy, ambition, and the ability to think of the wider implications, then this will be your defining move to date. The scale and pace of growth within Cable and Wireless Communications, together with our comprehensive management training and development processes, will provide you with unparalleled opportunities to fulfil your potential.

Interested candidates should apply to Alan Lynch enclosing an updated Curriculum Vitae to Robert Walters Associates, 10 Bedford Street, London WC2E 9HE. Tel: 0171 915 8873. Fax: 0171 915 8714.

E-mail: alan.lynch@robertwalters.com Web: http://www.robertwalters.com

You may also apply via http://taps.com/Robert_Walters quoting reference RW169.

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Lucent Technologies
Bell Labs Innovations

SENIOR MANAGER

CUSTOMER FINANCE EMEA

THE NETHERLANDS **PROJECT FINANCE**

Lucent Technologies is one of the major players in the telecommunications industry. The company develops, manufactures and sells a wide range of communication systems and software, public and private networks, consumer end business telephone systems and micro-electronics. With offices across 90 countries worldwide and 130,000 employees the company generates a turnover of approximately $26 billion.

Due to strong expansion foreseen over the coming years, its Europe, Middle East and Asia (EMEA) head office in Hilversum is now recruiting a Senior Manager - Customer Finance EMEA who provides direct and active support to the strategic partners and customers of Lucent Technologies about the best way to consummate a financing deal. He/she reports directly to the Director treasury EMEA.

The main responsibilities for the role will be:

- leading the search, analysis and negotiation of financing proposals
- managing large project finance transactions including credit analysis, complex modelling of cash flows, risk assessment and optional pricing models
- contacts with internal/external clients e.g. senior business executives representing client organisations, commercial and investment banks, engineering consultants, legal counsel, industry trade groups and government officials
- manage a team of customer finance professionals

Presently working within one of the "Big Five", the financial services sector and/or a leading US multinational and with a minimum of 10 years' work experience, the successful candidate will possess a strong academic background, preferably an MBA.

Exposure to complex international project finance and a thorough understanding of all aspects of lead managing project finance transactions would prove advantageous.

Candidate requirements are clear: excellent interpersonal skills with strong analytical qualities, the ability to liaise effectively at all levels both internally and externally and manage a team of professionals is vital to success in this position. Whilst English is the business language a knowledge of one or more European language would prove advantageous. International travel can be anticipated.

If you are interested in this opportunity, please contact Maurits A.N.M. Claassen on the number + 3120 6444 655, or alternatively send your Curriculum Vitae to the following address: Robert Walters Associates, 'Rivierstaete', Amsteldijk 166, 1079 LH Amsterdam, The Netherlands. Fax: + 3120 6429 005.

E-mail: maurits.claassen@robertwalters.com

Web: http://www.robertwalters.com

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Additionally, at more experienced levels we seek:

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All applicants should exhibit strong interpersonal skills, academic excellence, commercial acumen and an entrepreneurial spirit. Our expansion covers both UK and European transaction teams and for certain roles European languages will be advantageous. Successful candidates will join a meritocratic, team-orientated environment committed to individual development and long-term career planning.

Applicants should forward a CV to Guy Townsend or Brian Hamill at Walker Hamill Executive Selection quoting reference GT4700. Alternatively, immediate enquiries may be made to Guy Townsend on 0171 839 4444, or via e-mail: gtownsend@walker-hamill.co.uk

All direct responses will be forwarded to Walker Hamill

ING Barings is the organisation and trade name used by ING Bank N.V and certain of its subsidiaries for the conduct of its corporate and investment banking business.

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To apply please send a full CV with current remuneration details in confidence to Michael Hann quoting reference 290 on the envelope by 17 September to:

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■ *Reporting to the US based European Controller, the appointee will be required to set-up the accounting procedures and appropriate IT infrastructure to support the business as it expands, working towards overall responsibility for the UK operations. As a senior member of the management team in Europe, this high profile role offers an exciting opportunity for personal achievement and real career advancement.*

■ *Suitable candidates will be well educated, qualified accountants with a working knowledge of US GAAP, with preferably some experience of managing a finance function, and including general management experience outside of finance. Excellent communication skills, a positive management style and a genuine excitement in the business are pre-requisites.*

To be considered for this role, please send your curriculum vitae with current salary details and an explanation of how your experience meets the requirements to Gemma Jenkin, Ernst & Young Executive Search & Selection, Rolls House, 7 Rolls Buildings, Fetter Lane, London EC4A 1NH, quoting reference GJ267. Tel 0171 931 2967. Fax 0171 931 1022 or e-mail: gjenkin@cc.ernsty.co.uk

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Head of Finance and Operations

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■ *Our client is the UK subsidiary of a NASDAQ listed, rapidly expanding world wide business specialising in the design, manufacture and sale of cosmetic products for the medical sector. The UK company is a sales and distribution business employing 15 people with current sales of £3m which is anticipated to grow significantly in the short/medium term.*

■ *Reporting to the Managing Director, you will be responsible for the overall running of the Finance, IT, Customer Service and Logistics functions, with an initial emphasis on the development of pertinent financial and management information, and reporting to the European head office. You will become actively involved in wider commercial aspects of the business, such as risk/benefit analysis, contract negotiations and advising on development of the business into new products areas.*

■ *This is a high profile business development opportunity. You will be a qualified accountant who is already a senior finance manager within an import and distribution business, preferably within the hi-tech sector. Your technical accounting abilities are strong, but you are also capable of making a significant commercial contribution to the running of the business and are able to relate well to non-finance managers. Familiarity with warehousing, logistics, and IT would be advantageous.*

Please send your curriculum vitae together with an explanation of how you believe you meet the criteria for this position and details of current salary to Tim Hastings, quoting reference TH 269 at Ernst & Young Executive Search & Selection, Rolls House, 7 Rolls Buildings, Fetter Lane, London EC4A 1NH.

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Senior Internal Auditor

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The organisation has established this new position to report to the Director of Internal Audit, who is based in the USA, and work with other audit staff who are located in mainland Europe. The role is one of both operational and financial audit and will probably require the individual to travel extensively in Europe. It is anticipated that the appointee will grow the function into a commercial, profit focused operational entity that can add real value to the business.

Likely to be aged around 30, the successful candidate will be a qualified accountant with audit experience gained in a "Big 5" firm or major corporation within internal audit. Experience in finance areas in addition to audit would be beneficial. You will need to be able to identify financial and operational control issues and propose appropriate workable solutions. You will need to be a pro-active self starter able to work with all levels of management.

Interested candidates are requested to send comprehensive CVs and salary details, quoting reference A1009 to Tony Saw, KPMG Selection & Search, 1–2 Dorset Rise, Blackfriars, London EC4Y 8AE.

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You will be a graduate accountant with broad international experience from a sophisticated business to business services group. Key personal qualities are high intellect and first class leadership and communication skills.

Please write, in confidence, with a full CV to Criterion Search, 50 Regent Street, London W1R 6LP, UK, quoting ref: 3033.
Telephone: +44-171-470-7108. Fax: +44-171-470-7171. e-mail: mail@criterionsearch.co.uk

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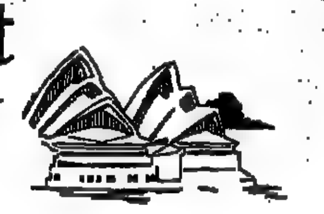

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Please write in confidence, with CV and remuneration details to, Criterion Search, 50 Regent Street, London W1R 6LP, quoting ref: 3032. Tel. +44 171 470 7212. Fax. +44 171 470 7171.

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Third Place in the Order of Merit (equal) and the Fletcher Prize and the Walton Prize for the Paper on Business and Financial Management and the Quilter Prize for the Paper on Auditing and Financial Reporting
Edward James Jenkins (PricewaterhouseCoopers), London

Third Place in the Order of Merit (equal) and the Strachan Prize
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Fifth Place in the Order of Merit and the William G Frazer Prize
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Caroline Ann Walker (KPMG), Liverpool

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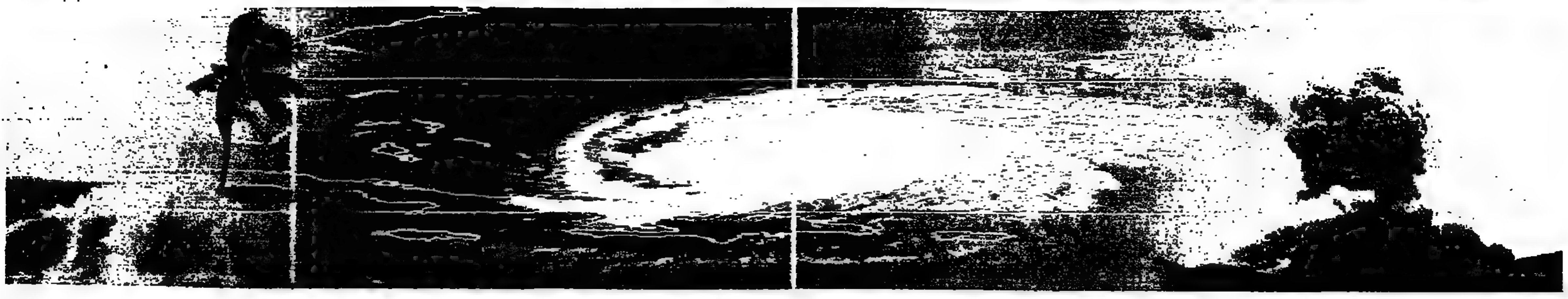

REINSURANCE

With premium rates low and the likely cost of future risks high, the industry is consolidating to form bigger, financially stronger groups, says **Christopher Adams**

Broad shoulders take the risks

An industry best known for its highly developed sense of caution is throwing prudence to the wind. Reinsurers, paid to absorb the financial risk of the world's biggest catastrophes, have stepped up an already frenzied round of restructuring as they struggle with new uncertainties reshaping their marketplace.

The acquisition in June of the world's third largest reinsurer, US-based General Re, for $22bn by Berkshire Hathaway, the financial group run by billionaire US investor Warren Buffett, was the biggest of a string of deals creating powerfully financed global giants better able to shoulder an increasingly diverse range of commercial risks and meet the threatened cost of future natural disasters.

The increased emphasis on capital strength stems from a series of heavy catastrophe-related claims in the early 1990s, which placed considerable strain on reinsurers. Rising property values and population growth in the world's developed cities are pushing up the projected cost of prospective natural and man-made disasters. Hurricane Andrew devastated the Florida coastline in 1992, causing $15bn of damage. A similar storm now could inflict six times that amount.

Yet reinsurers have suffered few big natural catastrophe claims since the Northridge earthquake in California four years ago. Catastrophe losses in the US property and casualty sector dropped by $4.7bn to $2.6bn, the lowest annual total for a decade and well below the 1990s average of $9.0bn a year. Last year's Caribbean hurricane season was relatively benign, largely because of an unusual warm water current in the Pacific Ocean called El Niño, which had unpredictable effects on the weather.

A dearth of insured losses continues to push premium rates down, prompting some reinsurers into a morbid longing for disasters to help rectify the "soft" market. Prices for reinsurance have been falling by up to 20 per cent a year after a period of exceptional profitability in what is typically a cyclical market.

Unable to increase rates, companies are using excess capital to gain market share, sacrificing underwriting margins. Fierce competition and sluggish revenue growth – as much as any belief in the danger of future capital inadequacy – have precipitated takeovers.

And so the pace of consolidation has been accelerating. Zurich-based Swiss Re bought Life Re of the US for $1.8bn in July this year.

Just weeks earlier, GE Capital, the financial services arm of General Electric, acquired Kemper Re for $500m.

Bermuda-based Ace bought Cat Limited, a property and catastrophe reinsurer, in March for $711m. As reinsurers seek to broaden their portfolios of business, diversification is leading to expansion overseas for many.

Intensifying the pressure on rates is a shift away from contracts popular in the past, dubbed proportional treaty business, where a reinsurer agreed to underwrite a share of an insurer's total risk, to ones where it underwrites a layer of cover above what is retained (non-proportional treaty).

There has also been an aggressive comeback by Lloyd's, the London-based market rescued from the brink of collapse two years ago.

Net written premiums, a measure of the income that reinsurers retain after ceding some of their own liabilities, fell 3.9 per cent worldwide last year and will decline by another 5 per cent in 1998, says Standard & Poor's. "To generate financial returns, you have to put capital to use and organic growth is not an option," says Ed Noonan, president and chief executive of American Re.

There is evidence that as business is concentrated in fewer hands – the top five companies accounted for 48 per cent of net written premiums in 1997 from 36 per cent a decade earlier – the biggest will be able to exert greater control over terms. The top 25 reinsurers managed to increase premiums by 2.7 per cent in 1997.

However, the reinsurance market is also contracting because primary insurers are able to use strong returns from their investments in capital markets to retain a greater proportion of their own risk.

Moreover, patterns of demand for primary insurance are shifting. Risk managers at the world's biggest companies are adopting a wider-ranging approach to juggling liabilities, moving away from annual policies that protect against separate eventualities to packages where protection is guaranteed over longer periods and activated by financial triggers such as interest rate or foreign exchange volatility.

"Clients are focusing more on quarterly earnings figures. Interest in financial reinsurance is heightening," says Jim Duffy, president and chief executive of St Paul Re. The US group has been involved in derivative transactions with power generators that smooth the effect of varying temperatures and weather on revenue, transactions which have begun to break down the boundaries between reinsurance, insurance and investment banking.

"These risks are so broad and have such an impact that they are not insurable in the traditional sense," says Mr Duffy.

The blurring of reinsurance with other financial services is throwing up opportunities and threats. New products which transfer risk to the capital markets are gaining wider recognition. A flurry of deals in recent months that securitised hurricane and typhoon risks in this way has bolstered support for catastrophe bonds as an efficient alternative to traditional coverage.

The biggest of these transactions was the sale by USAA, the North American residential insurer, of $450m in hurricane-linked securities in June. Investors receive returns higher than those from blue-chip corporate bonds, but the capital raised is used to meet the cost of disaster should one strike.

The cost of such transactions is still high; traditional reinsurance is cheaper and can be negotiated more quickly.

The latest acquisitions demonstrate how reinsurers are seeking new growth markets. Swiss Re's purchase of Life Re has taken it into a new area of administrative reinsurance, a sector which buys blocks of business from primary life insurers seeking to exit the market.

Last month, Employers Re, the US reinsurer, acquired Medical Protected, a specialist professional liability insurer for the medical profession. Demand for a wide range of long-term life and health products is expected to accelerate as populations in developed economies age, and state provision diminishes. "The opportunities in healthcare will be enormous," says Kaj Ahlmann, president and chief executive of Employers Re.

Top 15 reinsurers by 1996 premium income*

Group	Company	Reinsurance net written premium $	Group total $	Combined ratio %
Munich Re Group			10,927.3	–
	Munich Re	10,457.7		100.1
	Munich American Re	451.8		104.2
Swiss Re Group			8,848.5	–
	Swiss Re Zurich	4,372.4		108.0
	Swiss Re America	893.6		103.9
	Swiss Re UK	231.5		108.8
	Swiss Re Italia	641.8		111.9
	Mercantile & General Re	1,230.2		100.0
	Life Re	450.0		n/a
	Union Re	1,029.2		107.0
General & Cologne Re Group			5,865.1	
	General Re	2,717.8		99.0
	Cologne Re	2,482.4		101.1
	Cologne Re (Dublin)	271.7		100.7
	General Re Europe	193.2		97.1
Lloyd's		4,137.3	4,137.3	n/a
Allianz		3,944.7	3,944.7	99.2
Zurich Group			3,535.1	–
	Zurich Insurance	1,097.0		108.8
	Zurich Reinsurance Centre	729.3		103.6
	Zurich Re (London)	200.4		104.8
	Zurich Re (Cologne)	284.1		104.3
	Centre Re (Bermuda)	879.7		114.7
	Centre Re Co of New York	344.8		105.5
Hannover Re Group			2,629.2	–
	Hannover Re	1,831.2		102.0
	E&S Re	798.0		109.0
Gerling Global Re		2,292.0	2,292.0	103.9
Assicurazioni Generali		2,225.5	2,225.5	110.9
American Re		1,908.2	1,908.2	98.7
Bavarian Re Group			1,858.1	–
	Bavarian Re	1,559.5		101.3
	Bavarian Re Ireland	298.6		117.4
GE Capital			3,621.3	–
	Employers Re	1,449.6		105.3
	ERC Frankona	1,444.7		101.5
	Kemper Re	727.0		n/a
La Mutuelle du Mans Assurances			1,245.8	102.0
Scor			1,142.3	–
	Scor Re France	712.4		101.8
	Scor Re US	429.9		99.8
Winterthur			1,083.0	
	Winterthur	856.0		105.8
	Winterthur Re Corp of America	227.0		104.3

* Groupings include companies acquired since 1996

Sources: World Insurance Report, S&P

JAPAN • by Claire Preston

New patterns start to emerge

Alternative forms of catastrophe reinsurance are replacing the traditional treaty

The threat of another natural disaster on the scale of the Kobe earthquake always looms over Japan AP

Liberalisation in Japan's primary market has set off something of a revolution in its reinsurance patterns, particularly in the long-suppressed area of industrial earthquake insurance.

The quest for competitive advantage is now the primary motive behind Japanese insurers' activities, which has persuaded them to abandon their tradition of imposing strict controls on industrial earthquake capacity in favour of openly soliciting increased purchases from key clients.

For a while budgeting constraints seemed to be dissuading Japanese companies from taking up the offer to buy more earthquake cover but the last few months have seen utility companies in particular expand their insurance, as primary prices fall.

As a result, there have been several large risks placed into the international reinsurance market which individually range in value up to the region of US$1bn. What marks a stark contrast with past practice is that these are facultative reinsurances [of single risks].

The established method of reinsuring earthquake was to parcel it together with traditionally lucrative fire risks in the form of proportional treaties.

Now that liberalisation is expected to erode primary fire rates, the support offered by the fire side of the business has evaporated and with it the dominance of the proportional treaty. The size of some of the industrial earthquake risks also makes facultative reinsurance more appropriate.

All of this is good news for Lloyd's, which is estimated to have received about 40 per cent of the reinsurance business emanating from this summer's new purchases of primary earthquake protection.

Lloyd's not only has the spare facultative capacity which continental reinsurers may lack but the single-risk nature of the deals means they are less driven by relationships with clients, in which the continentals excel, and more by relationships with brokers.

"It is clear that as the market liberalises, servicing the changing needs of buyers will require greater access to facultative reinsurances," says Geoff Bromley, president and chief executive officer of Guy Carpenter International.

Although Mr Bromley sees industrial earthquake as one of the most immediate examples of this trend, he says that liberalisation will reveal other unmet needs of clients which will also require facultative solutions.

But the window of opportunity will not stay open indefinitely. Increased demand will eventually end the current soft pricing of facultative reinsurance and hence its relative attractiveness.

Mindful of the need for varied reinsurance capacity, Japanese insurers have also been exploring non-traditional solutions.

Three of the country's four top non-life insurers have now signed high-profile alternative risk transfer (Art) deals, involving transfer of risk to the capital markets. The latest of these exploratory dips into the capital markets was Yasuda Fire and Marine's $60m catastrophe bond in May.

This differed from the preceding two Japanese Art deals, in that it covered typhoon rather than earthquake risk and involved the combination of Munich Re and Aon Capital Markets. Munich Re's arch rival Swiss Re had organised the previous two deals – Tokio Marine and Fire's $100m catastrophe bond and Mitsui Marine and Fire's $30m swap – through its own dedicated unit, Swiss Re Capital Markets, itself part of Swiss Re New Markets.

More Art deals are widely expected to follow. "There is no question that there is a high level of interest. We have talked to a number of Japanese insurers," says Dennis Kuzak, vice-president of Eqecat Inc, which provided risk analysis for the Tokio and Mitsui deals.

Japan's capital-hungry life insurers might also be considered candidates for ART, but their relative conservatism is thought to be holding them back.

"So far there have been no clear replies to our proposals in this area," says Norbert Breböck, a Munich Re executive responsible for Asia.

Claire Preston is author of the Financial Times management report Japa[redacted] The Impact of Deregulation

EASTERN EUROPE • by Trevor Petch

Ceres keen to redress balance

Lloyd's is striving to bring more business from the region to London

"In central and eastern Europe – as well as elsewhere – the London Market has never succeeded in using the leverage that it had in its 30 per cent share of the marine market to obtain the non-marine business it would like, and could have," says David Wansbrough-Jones, managing director of Central & Eastern European Reinsurance Services Ltd (Ceres).

Ceres is a unique venture at Lloyd's which began operations in 1997, and is dedicated solely to business from the 27 countries of the region. Wholly owned by AE Grant (Underwriting Agencies), Ceres's capacity is provided by a consortium (number 9089) of four Lloyd's syndicates. Grant 991 provides half the capacity, with the remainder split between Denham 990, Mumford 1141 and Denby 609.

A typical syndicate at Lloyd's has difficulty in developing brand loyalty – hence, 9089 has unusually given itself a name – because it is writing only two or three of the lines the cedant [the client seeking reinsurance] wants, and Mr Wansbrough-Jones identifies this as one of the major factors which has prevented the London market from capitalising on its existing base, as well as exploiting the active desire by many insurers from the region to place their business in London, not least because of the long-standing relationships.

Marine, aviation and transport (Mat) insurance represents about a third of the London market's premium base. For the UK market, the proportion is about 10 per cent, but for global insurance as a whole, only 2 per cent.

In 1990, Ceres estimates, reinsurance premium ceded from central and eastern Europe totalled about US$350m (£220m), of which about two-fifths was non-marine business. The London market's share of the total was close to half.

By 1996, the total reinsurance premium volume from the region had more than tripled to over $1.25bn, but non-marine represented almost 90 per cent of the total while the volume of marine premium had declined in absolute terms by a third.

The London market's share of the total was about 11 per cent. By 2002, Ceres estimates reinsurance demand from the region will double again from the 1996 figure. It was founded to bring back to London some of that growth, of which European reinsurers have often been the beneficiaries.

There will be an increasing need for reinsurance as a capital substitute as local primary insurance markets continue to grow. A number of factors will contribute to this, including the introduction (or demonopolisation) of motor liability insurance, the expansion of the Green Card international motor insurance network to the countries of the former Soviet Union, and further privatisation and foreign investment. This creates a demand for new forms of cover, particularly liability classes, and a continuing shift to insurance on a replacement value basis rather than the book value basis formerly employed.

The consortium approach enables Ceres to offer all lines of insurance to its cedants. Ceres can also write direct, as many continental European reinsurers do, if the customer or accredited broker wishes.

Mr Wansbrough-Jones sees dealing through brokers as extremely valuable in adding extra knowledge, to the advantage of both reinsurer and cedant. "This is essential in developing markets," he says, quoting the old adage "four eyes, one risk".

To regard central and eastern Europe as a plum market ready to be picked is, however, a mistake, in his view. The region represents only about 1.5 per cent of world non-life reinsurance volume, in an environment which provides frequent reminders of potential instability. In the region's insurance markets, supervision is often still too hesitant, Mr Wansbrough-Jones believes, citing in particular a frequent reliance on minimum capital requirements rather than solvency control. This "stimulates the writing of rubbish to justify use of capital," he says. He identifies the use of dumping rates in the region by multinational primary insurers as an important externally created negative influence.

Factors such as these make an understanding of local conditions essential. This is facilitated by long-term relationships with clients. Mr Wansbrough-Jones' own involvement with the region goes back over 20 years, but in the London market that is not unique.

The foundation of the relationships established by London reinsurers and brokers with those who are now running the insurance companies in the regions, and will do so in future, has often been laid by personal contacts made through support schemes.

He therefore regrets, in particular, the apparent demise of the highly successful Chancellor's Scheme for training financial sector students from the region. Ceres' own commitment to training and provision of other technical support extends to a joint venture with Chelmsford-based Eurobase to supply insurance IT products to its clients, if required.

The Ceres model is one which might be adopted for other regions, such as African/Arab markets or Latin America.

THE GERMAN MARKET • by Herbert Fromme

Giants go body-building

Squeezed margins are pushing reinsurers into bolstering their body weight

Even the biggest in the world are beefing themselves up AP

"It is difficult to predict what will happen and when it will happen – but the present state of affairs cannot last much longer." That is the opinion shared by most reinsurers active in the continental European market.

For the past three years, reinsurance rates have plummeted, along with prices for primary insurance. But as companies have suffered fewer losses, especially fewer large losses, most have managed to show reasonable or even good underwriting results, despite the price fall. With investment income flourishing due to the booming stock markets, most reinsurers produced record bottom line results – quite in tune with the concept of enhanced shareholder value, newly discovered by insurers and reinsurers.

Prices have been too low for at least two years now. Peter Lütke-Bornefeld, chief executive of Cologne Re, believes that "prices are not adequate by a long way, if you look at it from an underwriting year. This is especially true as some reinsurers are prepared to include more risks in the old policy at the same or lower prices," he says. "At Cologne Re, we are comparatively restrictive in this field, especially on conditions that in the long run are unacceptable."

On the loss side, things are beginning to change. Large losses are starting to re-emerge – especially in industrial fire. German fire insurers recorded 122 loss events each costing DM1m or more in the first half of 1998. This is only four more than in the first half of 1997 but the value of the loss shot up by DM393m to DM979m – and this was before the DM150m worth of damage done in the Springer printing plant fire and the DM130m loss at the Schmalbach-Lubeca packaging plant, both of them in July.

While losses mount, prices fall further. Insurers expect a decline in industrial fire premiums by 20 per cent to DM2.7bn for 1996, on top of a 15 per cent drop in 1996 and a 6 per cent fall in 1995. Reinsurers not only suffer in line with these volume reductions, but also they have to live with the fact that the newly created, larger insurance groupings require less reinsurance. Reinsurance capacity is there in abundance. "Too many companies are chasing a declining volume," says one executive.

In motor, the popularity of rebates among primary companies following liberalisation is also beginning to hit their reinsurers, who for years made excellent profits with German motor reinsurance. True, German accounting rules are generous and give ample opportunity to build up large reserves (tax-free) during the good times. But this way of working cannot be the answer, reinsurers feel.

Yet there is still no change in the price trend. "The decline both in industrial fire and in motor is not just a normal phase in the cycle," says Bernhard Fink, chief executive of ERC Frankona in Munich. "This is the result of deep changes, away from a structured market to a far more competitive situation." There are risks which had worsening losses and still got "absurd rate reductions," says Mr Fink. "What we get from our main cedants in industrial fire is really shattering." The development is not confined to Germany, "but here it takes its most excessive form".

Mr Lütke-Bornefeld also has few illusions about the short-term future. "There are no clear signs that the market is taking seriously the lessons we all learned," he says. "Everyone is warning that things cannot go on, yet we all continue trying not to lose customers."

Mr Lütke-Bornefeld insists, though, that he detects more understanding from customers. "They look into the future and know that the soft market cannot go on indefinitely. They want stable reinsurance relations in a hardening market, too." Mr Fink similarly sees a trend towards more three-year contracts. "This shows that customers believe the market has bottomed out."

In a declining market, reinsurers trying to keep their volume have little choice but to buy other reinsurers' reinsurance portfolios. This is the basic key to most of the recent deals: in July, Swiss Re bought Life Re and Gerling Global Re acquired Constitution Re, both active in US niche markets. In August Hannover Re acquired US programme insurance specialist Clarendon, while still digesting the reinsurance portfolio of Skandia. Cologne Re acquired 27 per cent of Gothaer Re. Munich Re bought Reale Re of Italy.

"But these deals cannot be compared with the mega-deals of the mid-nineties, when Employers Re bought Frankona and Aachen Re, and General Re acquired Cologne Re," says Mr Fink. "Today, you check very thoroughly what possibilities you have to complement your existing operation, both in reinsurance and in the service activities that can be organised around it."

Mr Fink's ultimate parent GE Capital is well-versed in such takeover exercises. ERC Frankona and its parent are on the lookout, but so are others. Market leader Munich Re has just asked shareholders for DM3.3bn of fresh money which it will certainly employ gainfully. Hannover Re's chairman Wilhelm Zeller announced that his company would like to acquire a suitable reinsurer, preferably in the US. And Cologne Re, part of the General Re group, must feel even more secure with Warren Buffett as ultimate parent after his $22bn takeover of General Re.

But Mr Lütke-Bornefeld calms talk of further aggression: "We are certainly not out to win premium volume on conditions that make no business sense." He adds: "We will also not accept risks which carry low prices in relation to their volatility, and we will not buy reinsurance portfolios or volumes at any price."

The Buffett deal is nonetheless being watched with some apprehension by other reinsurers. They are well aware of General Re's key motives in seeking the deal with the giant investor – General Re will no longer be directly listed on the stock exchange, and thus no longer subject to the volatilities of the quarterly reporting cycle. This removes what its managers believe was a serious disadvantage in competing against Munich Re and Swiss Re. The General Re/Cologne Re group is one reinsurer that seems determined not to leave the two market leaders alone in their top positions.

SECURITISATION •

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SECURITISATION • by Lee Coppack

Capital markets set to take on bigger role

New forms of catastrophe finance are being used to spread risks

Jacques Blondeau, the chairman and chief executive of French reinsurer SCOR, is a strong believer in catastrophe bonds. Says Mr Blondeau: "For a normal reinsurer to build up a huge fund of capital waiting for the big one does not make sense from an economic or financial perspective, since it would depress the return on equity. I think for this sort of activity, the capital markets will take over."

The reluctance of reinsurers to carry peak risks is one of the main forces driving the development of the market for alternative forms of catastrophe finance. From the perspective of the worldwide insurance and reinsurance industry, there is an awareness of the imbalance between the supply of capital that can be raised and serviced and the potential exposure for catastrophe losses in the developed world alone, without even taking into account future demand from developing countries.

Favouring stronger capital market involvement is a demand for highly rated investments as the issue of sovereign debt from industrial countries declines and as a way of securing better performance than can be obtained from low-yielding government bonds. Catastrophe bond issues, such as the 1998 bond for Texas-based USAA, are still being priced at more than 400 basis points over three-month Libor.

Normally, after a large catastrophe, rates rise. Reinsurers can raise more capital to take advantage of the higher rates. Prices soon begin to flatten, however, as a function of increased supply of capital. The problem, as the Bermuda property/catastrophe companies have found even in a zero tax environment, is not raising the capital but servicing it when the rates slide down.

The Catastrophe Price Index calculated by Paragon Reinsurance Risk Management Services Inc calculates relative US property/catastrophe prices from a sample of approximately 300 companies representing almost 1,000 treaties, and approximately 42 per cent of estimated industry premium. It started at 1.00 on January 1 in 1984 and fell to 0.93 by January 1 1989. Rates were already moving upwards when Hurricane Andrew occurred in September 1992. The index rose 60.2 per cent on the January 1 1993 renewals and peaked two years later at 2.47 following the Northridge earthquake. It has fallen steadily since and was down to 1.67 for renewals from January 1 1998.

Two points emerge. Although these three catastrophes alone resulted in insured losses of around $34.4bn, according to Swiss Re's *Sigma* report, competition began pushing rates down from January 1 1994. At the same time rates remain materially above pre-Andrew levels, which suggests that reinsurers are comparatively conservative about the amount of capital they are prepared to commit to US catastrophe risks.

The demand for securitised catastrophe protection could be extensive because without even considering the potential loss from a Tokyo earthquake or a wind storm striking the length the US Atlantic coast, there is already a substantial gap between insured and economic loss in catastrophes.

Munich Re estimates that in 1996 and 1997 insured losses were only 15 per cent of the total. Insurance density is the key. Insurance density and insured values are very high in the US. The Kobe earthquake in Japan in January 1995 killed about 6,000 people and resulted in insured losses of $2.6bn, in 1996 price terms, but Munich Re estimates uninsured economic losses at about $97bn.

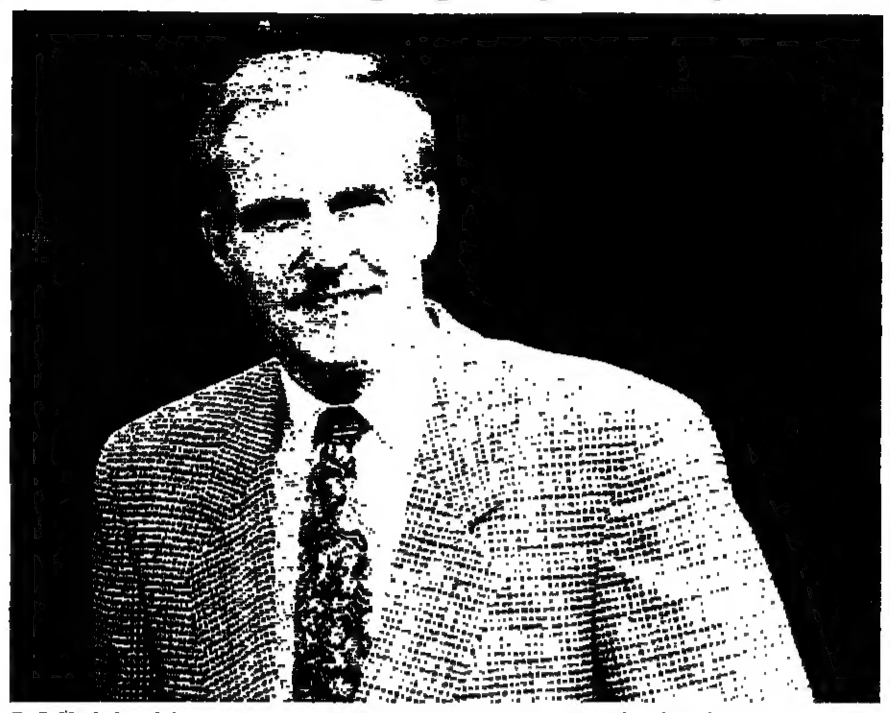
The growing world population and intensifying urbanisation do not just lead to an increase in insured exposures but can actually change the nature of risk. Urban centres are attractive targets for terrorists because of the impact they can have. The combination of populations under pressure in cities with valuable property is a volatile one; race riots in Los Angeles in 1992 figure among the 40 mostly costly loss events since 1970. The increased heat and exhaust gases associated with urbanisation and geological changes resulting from large building works can also affect risk. As Munich Re points out: "Big cities create their own climate, a problem that will be intensified by global climate change."

It also points out that more than 15 per cent of all insurance payments were for insurance of the person – life, health and personal accident. In terms of fatalities, the greatest deaths occurred in earthquakes and cyclones, but the list also includes three man-made disasters in India: a dam-burst in 1979 when 15,000 people died; the Bhopal chemical plant malfunction which resulted in 3,000 deaths and much disability which was not recorded; and a railway accident at Bihar in 1981 when about 2,500 people died.

INTERVIEW • Dr Hans-Jürgen Schinzler

Alert for new opportunities

Dr Hans-Jürgen Schinzler, chairman of Munich Re, has protected the quiet giant reputation that the group has always had, but has nonetheless changed the world's number one reinsurer dramatically during his five-year tenure. Key events have been the takeover of American Re and the creation of Ergo, Germany's second-largest primary insurer. By Herbert Fromme



Dr Schinzler's subtle strength has achieved much in five years at the helm of Munich Re

Question The reinsurance market, including Munich Re, is suffering from sharply reduced prices. Yet, profits are up. How long is this situation going to last?

Answer We have been lucky. Just as there are years with exceptionally high insured and reinsured losses, for example 1989 to 1992, we have had the opposite extreme for the last two years – extraordinarily few large losses. Premium levels are really awful in many sectors, but results are not yet showing that.

Q What needs to happen to change the downward trend? Do reinsurers pray for catastrophes?

A We are glad for every year that passes without large loss events, but it is an illusion to believe that they will no longer happen. The market will certainly not go up without a worsening of results, for example due to catastrophes or to adverse trends in capital markets. However, I don't see that at the moment. Even the Asian crisis is having no dramatic consequences for reinsurers. It is affecting volumes and results, but not seriously.

Q You have asked your shareholders, through capital measures, for DM3.3bn. What will you buy with this war chest?

A We are not at war. Munich Re has always been on excellent terms with companies it has taken over. It does no harm for a reinsurer to have more equity. But we also want to be more flexible, should we see a good opportunity for an acquisition, or should Ergo do something big in this field and we are asked to participate in a rights issue with them.

Q Where might such a good opportunity be?

A I really couldn't say, without starting unfounded rumours. We have looked at numerous companies over time. There are also certain regions we find attractive – take Latin America, Asia or eastern Europe, although possibilities are limited there. We are looking for a solid, well structured company, which fits well into our existing operation. We also imagine that Ergo will expand in Europe, once it has digested the merger in Germany. Ergo is already the largest European group in private health and legal expenses.

Q Are you seeking a New York listing?

A We have no plans for that at the moment. But through the measures we have taken and will take, we will be in a position to be present in New York or on other stock exchanges once we think that useful. We don't know what the euro will bring; it might make sense to be listed in Paris or London.

Q Don't you fear the "short-termism" New York would involve, for example the quarterly reports?

A This is really a problem. As a reinsurer you have difficulties getting the necessary data in time. Secondly, it can't be right that in this highly volatile business you are judged by one quarter, in which you might be hit by a big loss, while the year as a whole is good. General Re was the last large listed reinsurer – until it was acquired by Warren Buffett. They have always shown a very even combined ratio, which can only be achieved with retrocession and other equalisation instruments – but you don't get those for free.

Q You recently securitised a risk involving Japanese storm cover for the first time. Will this be expanded in future?

A We are accompanying our customers and providing our expertise, in this case for our Japanese customer Yasuda. There is certainly enough capacity in traditional reinsurance. But people like to test other ways including securitisation, to prepare for a situation when capacity might be tight again. At the moment, the capital markets are comparatively expensive – up to four times what you pay for traditional reinsurance. Transaction costs are also higher, and the deals are very complicated.

Q Do you need a bank to foster this business? Swiss Re has its links with Credit Suisse.

A We have opted for a different approach. It is attractive for banks if they can call on Munich Re case by case; for us it makes sense if we can decide on a similar basis.

Q You have just decided to pool asset management in the group in one company, led by Ergo. Do you see other ways of co-operating closely – for example in industrial business, when you need an insurer to front business that you do directly with a large industrial company?

A Joint asset management makes a lot of sense. A company managing more than DM200bn can easily employ a more profiled investment team than each of the group members. As far as other synergies are concerned, we really haven't thought of that.

Q Your closest competitor Swiss Re is doing business directly with large industrial companies. You have been more puritan on this subject, arguing that you only work through your customers, the primary insurers. Is that resolve waning?

A We have been in contact with captive insurers – and thus with industry – for decades, they are not a new invention. But we are neither very offensive nor spectacular in our efforts. We are giving precedence to our traditional business, trying not to compete with our customers. But the world is changing, and so are we. With American Re we have a group member that has a lot of experience in this field in its home market. We are currently defining our profile in this sector, together with American Re. We are not going to copy Swiss Re's strategy, but we can adapt to the the needs of the market.

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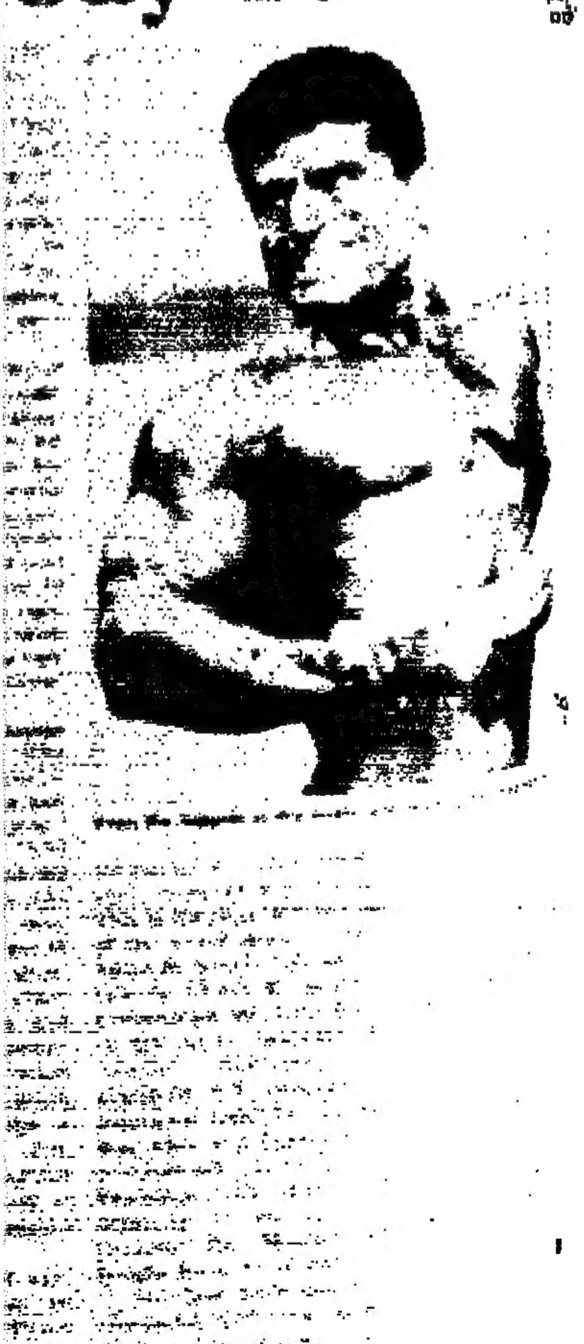


CATASTROPHE MODELLING • by Chris Lewis

Out goes the crystal ball

The mathematics of chance are gaining converts, but gut feeling still counts

The Soho satellite uses sun shower analysis to look at catastrophe risks AP

Catastrophe modelling – a combination of science, statistics and finance – is propelling insurance out of the crystal ball era and into the age of the computer chip, replacing guesswork with probability and enabling better use of capital.

"The maths of chance are becoming more refined and, for any particular event the mathematical variations are going to be much clearer," says Rowan Douglas, managing director of WIRE, the risk information company.

As well as enhancing underwriting techniques, catastrophe modelling has opened a Pandora's box which could have far-reaching consequences. "Insurance and reinsurance are beginning to grow up and become more sophisticated. This has real implications for the market," says Mr Douglas.

In essence, modelling allows insurers to quantify catastrophe risk more accurately. It sprang from a series of disasters in the late 1980s and early 1990s – including Hurricanes Andrew and Hugo in the US, Typhoon Mireille in Japan and a clutch of European wind storms – which sent shock waves through the industry and wiped out several insurers.

"At that point it became important for insurers to demonstrate that they were in control of their portfolios by showing they had access to data about risks they were insuring," says Andrew Mitchell of Benfield Greig, the broker.

Catastrophe modelling now employs some 1,000 people and draws on the expertise of many more in academia. The main players are Applied Insurance Research, RMS and Eqecat, in addition to which several reinsurers and brokers also have in-house teams.

Previously underwriters had relied largely on their own loss experience and on their knowledge of historic losses. "But that is not a guide to the future. It's happened and won't happen again. Cat models can provide a probabilistic assessment of future loss potential rather than simply a summary or extrapolation of what's happened in the past," says Mr Mitchell.

Using modelling, underwriters can run thousands of "what if" scenarios through powerful computers, gauging the potential impact of hurricanes, earthquakes and other catastrophes on their portfolio.

"Most insurers these days are using some kind of modelling. We use AIR's Cat Map model. It runs about 75,000 events against anything you put in," says Mark Rayner, US catastrophe treaty underwriter at DP Mann.

Underwriters use the results to help with pricing, portfolio spread and capital allocation decisions. "We're not looking for the right answer out of the model necessarily, but it gives us a good feel for each account. The model also tells us how much money we need to support the portfolio of business across the whole book rather than on an individual account basis," says Rayner.

Catastrophe modelling also opens up new possibilities, both in product development and the field of alternative risk transfer. Benfield Greig sees opportunities for policies covering hazards such as dry rot, wet rot and rising damp, which have hitherto been hard to quantify.

Mr Douglas believes catastrophe modelling is bound up with the potential for alternative risk transfer. "At the broadest level reinsurance and investment banking are merging because it's all essentially balance sheet management. With the data the insurance market has begun to collect, allied with modelling occurring in other industries and academia, you are getting the fuel together to be able to calculate the price of risk."

Catastrophe modelling also has implications for the contentious issue of real-time trading in risk, for example buying and selling cover as an Atlantic hurricane builds off the US coast. "If an insurer has a particular exposure in Atlanta, Georgia, he can wait until a hurricane looks like it's going to hit before spending a lot of money on reinsurance programmes," says Mr Douglas.

Others are more cautious. Mr Mitchell believes that approach may be relevant to broader time-scales, such as switching capacity over several months in the wake of El Niño developments. Mr Rayner says short-term trading clashes with the present pricing structure of insurance. "You have to sell the prices that we're getting over time to sustain the big losses. If we're only going to sell when the wind begins to blow, we're never going to get a big enough attainable rate spread to cover the book."

One thing catastrophe modellers cannot predict is their own future. This new tool will take time to master and in the process new applications will arise and existing ones will be refined. "The models are still very much in their infancy. You can't plunge into this new area and expect to reach maturity within five years," says Mr Mitchell.

4 REINSURANCE

LIFE REINSURANCE • by Patrick Jenkins

Move to balance catastrophe portfolios

Reinsurers are intent on boosting their life and health business

Life reinsurance is the antithesis of catastrophe reinsurance. It is as predictable as catastrophe business is unpredictable. Because of this variance, traditional property/casualty reinsurers, many with high catastrophe exposures, are moving into life business. They want to balance the low frequency/high severity business of catastrophe cover with the steady asset-liability profile of life reinsurance. The extreme example of this – a Bermudian cat reinsurer buying a life reinsurer – has yet to happen.

Swiss Re has been the most active investor in life and health reinsurance risks. In August 1996, it acquired Mercantile & General Reinsurance, the last British reinsurer, for $2bn. M&G Re was soon stripped of its unattractive non-life business – the US subsidiary was sold to Toa Fire & Marine barely a year later for $200m – to enable Swiss Re to build its life book quickly and easily.

In December 1996, Swiss Re swept aside the competition to make the relatively small acquisition, for little more than $300m, of Italian life reinsurance specialist Unione Italiana di Riassicurazione (Uniorias). In July this year, the trail was continued with the $1.8bn purchase of Life Re Corporation of the US.

Swiss Re now controls around 20 per cent of the world life reinsurance market, including nearly 50 per cent of the UK market. It is only really in Germany and France that Swiss Re feels underweight. But John Coomber, divisional chief executive of Swiss Re Life & Health, denies there is an urgent need to make local acquisitions.

Other reinsurers are similarly intent on boosting their life and health business. Hannover Re was the company that Swiss Re beat off to take control of Uniorias. The other top names, from Munich Re to the US quintet of General & Cologne Re, Lincoln National, Transamerica, Employers Re and RGA, all have significant market share (see table).

The increased interest in the life and health market is one of the most extreme, yet subtle, changes in the reinsurance field since Bermuda developed as a catastrophe reinsurance location.

The most obvious attraction aside from the fundamental chance to balance exposures is the volume of business that will be spawned by welfare reform across the developed world. Critics of the traditional life reinsurer would also argue that a third motivation is simply the money that can be made in this market. When one reinsurer holds as large a share as Swiss Re, the competitive pressure on margins is relatively slight.

However, this plump cushion could well be pulled away if the new forces in the market gain strength. Life reinsurers have tended to do their business direct with the primary life companies, without using a broker as is normal in the non-life market. Primaries have felt happy with this. After years of face-to-face deals with a trusted reinsurer, an insured considers that it is getting special bargain treatment. Some brokers are trying to shake up this perception, and a couple of small-scale deals have been done in the UK over the past year, in which a big broker has assembled a pool of reinsurers to undercut the expected price of a direct deal between primary and reinsurer.

Doubts about adding an intermediary to the process could nevertheless slow the development of this kind of deal. It is certainly not receiving the kind of attention being paid to life bonds, which also have a parallel in catastrophe business.

Swiss Re is the obvious candidate to launch a life bond. It dominates the traditional life reinsurance market, and has a sister, Swiss Re New Markets, that specialises in structuring alternative arrangements. So far, the group has been inactive, although Mr Coomber admits he has ambitions in this area. In particular, he may be hatching a plan to take advantage of the weakness of the Japanese life sector. If he can persuade conservative Japanese managers to abandon their distrust of financial life reinsurance, a securitised deal between Swiss Re and one of the more secure Japanese life companies could soon materialise.

So far only two fully fledged operations have been completed. In April this year, Hannover Re made big play of being the first company to securitise life business. It bought a security to help offset new life business "acquisition costs" – principally expensive broker commission – which cannot be amortised under German law but must instead be booked immediately. In practice, it was retroceding up to DM100m of life contracts to Interpolis Re, a reinsurer specifically set up by Rabobank to take the Hannover Re business, with the aim of passing it on to the capital markets. Hence the securitisation label. At the time the deal was struck, however, only Rabobank was backing it, effectively making the bank no more than a traditional reinsurer. Hannover Re admits other backers have yet to come forward to give it a more genuine securitisation feel.

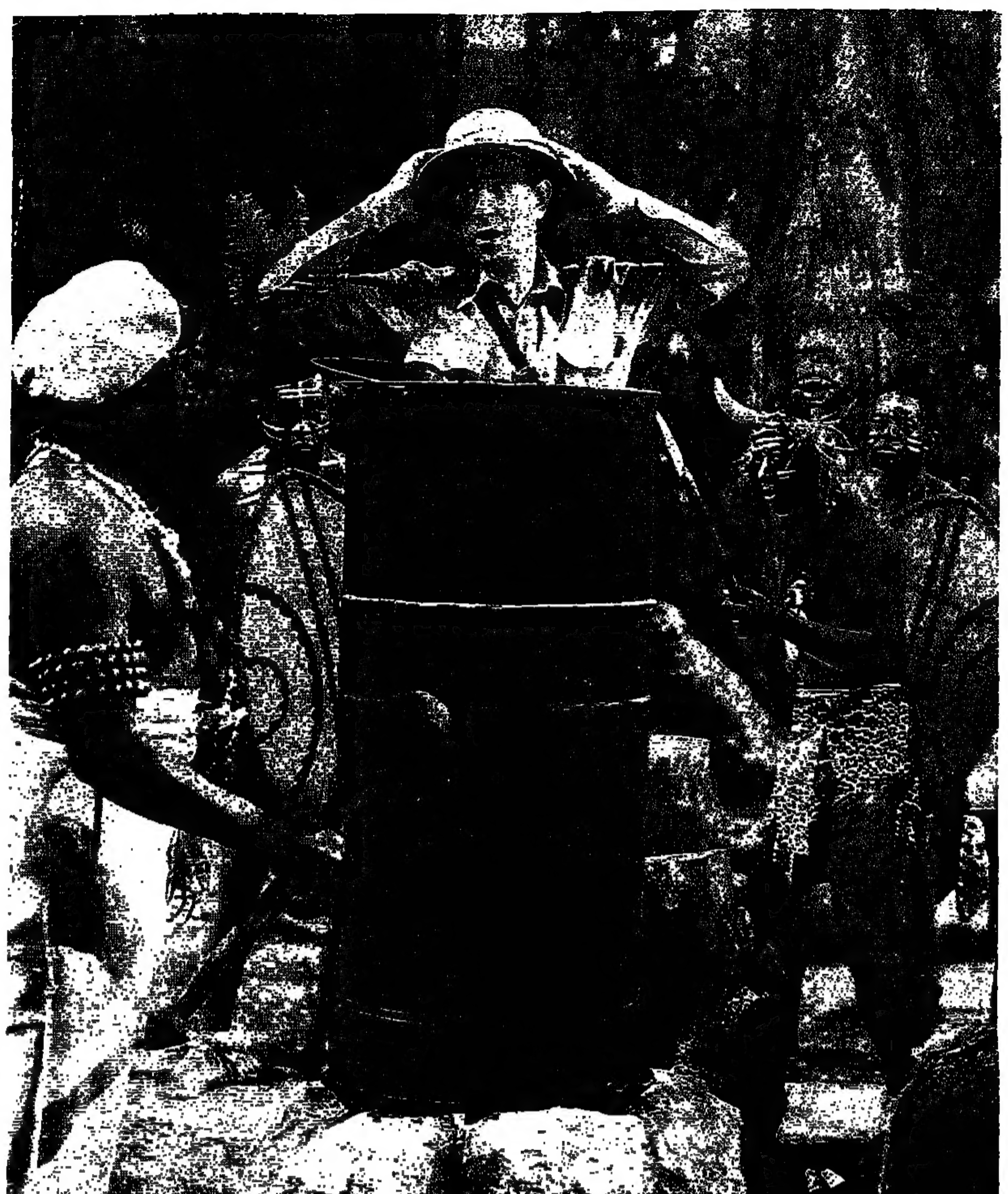
Wolf Becke, Hannover's executive director in charge of life business, says this was just a trial run. He expects to make a call for an expansion of the programme some time next year, and stresses there is plenty of room for further developments.

Securitising business other than the current focus of central European life policies is the obvious next step, but Mr Becke also cites opportunities in annuities and the future profit stream of existing business.

Top 10 life reinsurers
By 1996 premium*

Swiss Re	4,050
Munich Re	2,100
General & Cologne Re	1,100
Lincoln National Life Re	1,050
Transamerica Life	860
Employers Re	700
RGA Re	675
Hannover Re	625
Gerling Konzern	500
ManuLife	500

* Includes projected impact ($450m) of Life Re acquisition
Source: S&P, World Life Insurance Report



Co-operation rather than cannibalism will be the secret of success in advancing the culture of alternative life reinsurance

Attractions of securitisation

- Although some say insurance securitisations are still so new that they are uncompetitive, Simon Pearson, project manager for NPI's deal, says his "gut feeling is that it is 1 per cent per annum cheaper" than an equivalent financial reinsurance operation.
- A deal can be done over a longer period. Reinsurers are loath to write a policy for longer than 10 years; the NPI securitisation has a 24-year duration.
- The instruments are, theoretically at least, tradeable.
- In that this kind of deal is a capital-manipulation tool, mutuals will find it of particular appeal, constrained as they are from raising capital in other ways.
- As long as the bond is sold to cover life business (as opposed to pensions), the interest on the loan will be tax-deductible under UK tax law, making the average cost of capital in the NPI deal a fairly cheap 5.98 per cent.
- As with other forms of capital reactivation, such as the more normal financial reinsurance option, securitisations free up dead assets, which can be subsequently reallocated for investment purposes (perhaps in more risky equities or property) or for expansion.

CASE STUDY NPI

Deal may be a leader

National Provident Institution (NPI) made headlines in April when it announced a £260m life business securitisation. Relatively little has been said about the details of the operation. It was structured in two parts – the first for £140m, which carries a 7.39 per cent coupon, will be paid off over 14 years; the second for £120m, which carries a 7.59 per cent coupon, will be paid off over 24 years.

Since the risk profile of a life company's portfolio is so stable, at least relative to a non-life insurer with some catastrophe exposure, life reinsurance is always more about financial juggling than risk transfer.

Although obliged by solvency regulations to hold a certain proportion of its assets in reserve to cover the policies it has underwritten and will have in force, NPI decided that the figure was excessively cautious and sought a way to free a portion of those dead assets.

Analysis yielded a figure of £467m as NPI's value in force (VIF), the sum which was deemed surplus to reserving necessity. To secure the A-/A3 credit ratings from Standard and Poor's and Moody's that it wanted, NPI chose only to securitise $260m, although the deal incorporates the facility to increase this by a further $30m if investors agree. The bond was placed via an Irish special purpose vehicle to maximise tax efficiencies for the principal sum and investment returns.

The contractual amortisation structure of the deal means investors receive a set sum each year, provided NPI's business and operating surplus perform as projected. If they do not, the pay-back can be deferred indefinitely, so that under a worst-case scenario investors lose their principal, although there is an emergency dip-in fund to safeguard against deferral of repayment.

David Newby, of SBC Warburg, the lead bank on the NPI deal, expects to announce details of at least one other similar operation before the end of the year. The NPI model will be particularly attractive to mutuals, because of the capital flexibility it facilitates, and to life assurers with a relatively small proportion of pensions business. This puts a range of UK life assurers into the frame – from the largest mutual, Standard Life, down but also limited liability companies, such as the Prudential.

NPI's deal was presented as innovative but some industry experts believe the market will view it in the same kind of light as surrounded the Scottish Amicable contingent loan issue about five years earlier. That had the same effect of raising capital in regulatory accounting terms, and buying debt in the financial accounts. Other surplus relief deals have been done since, although the NPI deal was the first to go to the capital markets.

According to some critics, the NPI deal is another of the alternatives to straightforward reinsurance, which have previously involved financial reinsurance, derivatives and contingent bank loans.

Although the NPI deal is claimed to be innovative, a new breed of security must be liquid to prosper, and NPI bonds have been barely traded, they argue.

The future is likely to develop along different lines, with co-operation rather than cannibalism likely to be the secret of success. Indeed, a number of different financial disciplines is converging on re-insurance as a potential new business area, each with a distinctive contribution to make.

Reinsurers should concentrate, critics say, on what they are good at – understanding the business of risk; analysing and projecting the dynamics of the business; and, ultimately assuming risk.

Historically, at least, reinsurers have not been good at lending. This, clearly, is where the merchant banks can fit in. If there is a place for brokers, it is, predictably, in a mediating role.

One senior reinsurer involved in securitisations is convinced that his colleagues should stick to what they know. "If I were doing the NPI deal, I would have the reinsurer take the volatility, and then get the funding from the capital markets."

This is remarkably similar to the structure of a brokered deal that went through in secret last year. That operation saved the primary company more than 50 per cent of its premium stream over the next 20 years, thanks largely to the reinsurers' keenness to get involved in this area, even at uneconomic prices.

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LONDON MARKET

Lloyd's squeezes harder

Christopher Adams examines a market that is shaving margins to win business

London's pre-eminence as the reinsurance centre of the world suffered a hard knock when Lloyd's, the 310-year-old society at the heart of the market, nearly collapsed two years ago. Heavy losses from a series of natural catastrophes and US environmental liabilities damaged client confidence and London lost market share to a new breed of reinsurers in other global centres such as Bermuda.

Lloyd's share of worldwide non-life premiums was 1.8 per cent in 1994 and is believed to have declined since. The market specialises in marine hull and cargo liability insurance, energy and aviation risks, property, professional liability and motor cover. It has the capacity to write £10.2bn of business, almost half of which is reinsurance.

The struggle to reclaim market share may not bear fruit for several years. In the short term, at least, it will erode margins.

But in a bid to increase efficiency and punch above their weight in the international ring, the agents who manage Lloyd's underwriting syndicates, have embarked on an unprecendented wave of restructuring.

Many are forming links with corporate capital to create conventional insurance and reinsurance companies.

The pace of mergers and acquisitions reshaping the market has been fuelled by the huge volumes of excess capital worldwide. Bermudian companies, in particular, have been using bulging resources to extend their reach in London.

Ace bought Charman Underwriting, one of the most profitable underwriting agencies at Lloyd's, for $515m in June, a deal which gives it control over 9.3 per cent of the market's capacity. Just weeks later, Murray Lawrence merged with Angerstein, the corporate investment vehicle, in a £115m transaction.

"Scale is important in reinsurance," says Max Taylor, chairman of Lloyd's. "Massive reserves and access to capital give you strong security."

Lloyd's has been making changes to improve its financial security as part of efforts to ensure that past problems are not recreated.

Under legislation to be enacted in the next two years, overall responsibility for the regulation of Lloyd's will transfer from self-control to the new Financial Services Authority.

The transformation of Lloyd's into a business supported for the most part by corporate capital – only about 40 per cent of the business the market writes is now backed by Names – is likely to result in the demise of the long-standing business practice where underwriters are obliged to raise fresh funds each year. Standard & Poor's, which began rating Lloyd's financial security last year, says this should be welcomed.

"The annual venture is an increasing source of commercial disadvantage and there is an overwhelming case for continuous capital to replace it. Long-term insurance policies are an increasing feature of the global marketplace. Although such policies are written by Lloyd's, they are difficult to administer."

Lloyd's comeback has been helped by record profitability three years in a row. Under its three-year accounting system, the market in May announced profits of £1bn for the 1995 underwriting year, the result boosted by an absence of natural catastrophes. But it warned that returns had since fallen significantly, hurt by intense competition. The Institute of London Underwriters, one of the London market associations, estimates that premium rates in aviation markets, for example, have fallen up to 30 per cent this year, despite a jump in the insurance cost of air crashes, which hit near-record levels last year.

Pressure to improve efficiency will therefore intensify. Mr Taylor, who succeeded Sir David Rowland this year as chairman of Lloyd's, has pledged to reform distribution methods and cut costs so that the market retains its share of worldwide premiums. Lloyd's conducts its business through brokers, who charge fees or commission for their services. The market could modernise its approach to broking, he says.

"We also need to develop a strategy for administration and claims handling. Co-operation with the rest of the London market is a major opportunity."

ILU/Lirma merger stalled

All the world's top insurers have offices in London, known collectively as "the company market". For nearly a year they have been working to form the International Underwriting Association (IUA) of London by merging two trade associations, the marine-focused Institute of London Underwriters (ILU), and the non-marine London International Insurance and Reinsurance Market Association (Lirma).

The IUA will be the world's largest coalition of reinsurers, dominating London's reinsurance market.

Lirma members wrote about $5.5bn of the $9.6bn in treaty reinsurance which came to London in 1996, and the ILU $800m. Lloyd's share was $3.3bn. Members' parent companies are also stakeholders in Lloyd's, controlling about a quarter of its corporate capital.

"The IUA will be uncompromisingly international," says Marie-Louise Rossi, the IUA's chief executive designate.

At present members must be licensed in an EU country, so many important US and Bermudian reinsurers cannot join, but the blueprint for the IUA includes expansion to encompass more territories.

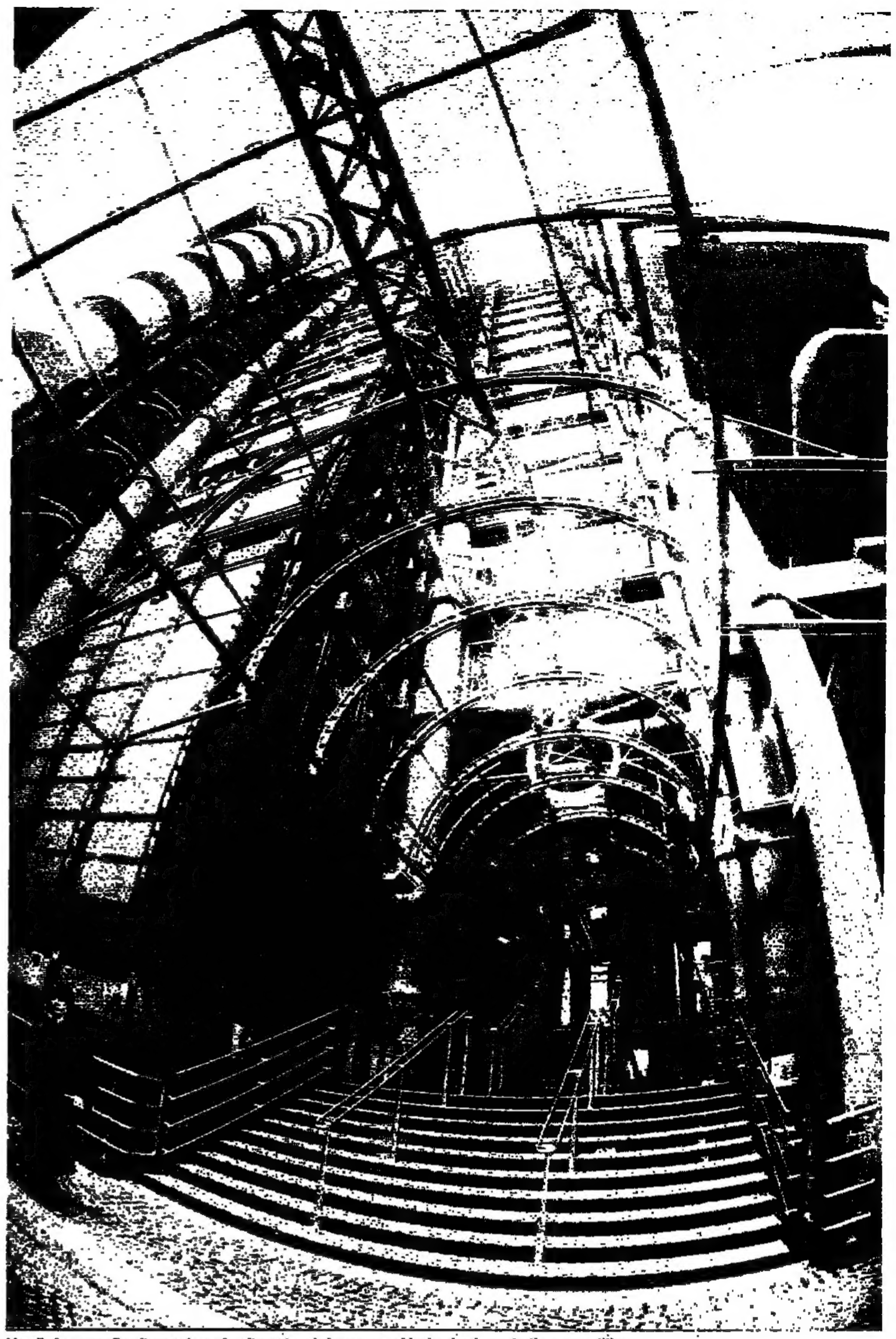
The combination cannot proceed until the ILU sorts out a liability of £4.7m related to its flagship building on Leadenhall Street. That mess has caused repeated postponement of the IUA's creation. Market sources say the new deadline of the end of this month is still unlikely to be met.

But Lirma and the ILU say their members strongly favour the merger, and insist it will go ahead this year.

As London's reinsurance market comes under increasing competitive strain from around the world, rationalisation is all-important.

"London continues to enjoy tremendous respect, but we must make ourselves more efficient, quicker, and easier to understand for our customers," says Tim Carroll of ERC Frankona, chairman designate of the IUA. Ironing out the technical rucks and finalising the merger would be a good start.

Adrian Leonard



Lloyd's is expanding its reach again after a tough few years of losing business to the competition

PROFILE · Equitas

Away from the unknown

When Bermuda's upstart insurance companies formed in the mid-1980s to provide new capacity to insure liability risk, they offered the certainty of clean, unencumbered capital. Claims against old insurance business could not come back to weaken them, so there was no potential knock-on effect for current policyholders.

Equitas, the reinsurance vehicle set up to take on Lloyd's 1992 and prior liabilities, did the same thing for Lloyd's. The world's oldest insurance market is no longer a hostage to the fortunes of policies written decades ago.

Instead Equitas has inherited the uncertainty. The purpose-built reinsurer has assumed obligations of approximately £22bn before discounting, although the exact and final amount is not yet known. Hence an audit qualification appears in the Equitas accounts. Coopers & Lybrand (now PricewaterhouseCoopers) said "there are significant uncertainties as to the accuracy of the provision for claims outstanding ... reinsurers' share of claims ... and reinsurance recoveries".

However, little by little Equitas finance director Jane Barker is swapping unknowns for certainties. The latest such exchange came in mid-August, when Equitas received what is expected to be its final payment from Lloyd's to cover the cost of running off the market's old liabilities.

Under the original settlement arrangements for the creation of Equitas, Lloyd's was to make a payment in 2002 of between £0 and £100m. "It was effectively an interest rate option," says Ms Barker. "After all of the statements had been sent to Names stating how much they owed, interest rates moved in favour of Equitas. It was agreed that in recognition of that, we would take £100m less." The numbers for the Settlement Offer Document – the agreement between Lloyd's and Equitas, struck as part of the market's Reconstruction and Renewal (R&R) recovery programme – were calculated, then reduced by £100m. "We accepted, with the proviso that if interest rates did not stay at these new rates over the first five years, Lloyd's would have to make a payment to us, of anywhere between zero and £100m," she explains. The potential default of R&R instalment payments by brokers was also covered by the agreement.

In order to rid itself of some uncertainty, Lloyd's approached Equitas and asked to settle the debt early. "Lloyd's came to us and said 'we would really like to take this contingent liability out of our balance sheet' and we said, 'okay, at a price'."

While Ms Barker has come under fire from some quarters for accepting less than £100m, she reminds critics that the ultimate payment could have been nothing. "If you had asked both Lloyd's and Equitas on September 4 1996 'is there any chance this will pay out?', I think both parties would have said 'probably not'."

Instilling certainty, Equitas maintains, is essential to the ability to manage the business in each of its three core functions: finance, claims, and reinsurance recovery. Another slice of certainty in Equitas's portfolio of assets is about 130 inherited 'time and distance' (T&D) insurance policies, financial instruments similar to bonds, but including an element of reinsurance risk transfer. T&D policies were purchased by almost every Lloyd's syndicate during the late 1970s and 1980s, for both their tax and cash-flow benefits. They are now listed in the Equitas accounts under the "investments" heading as "financial reinsurance". The policies, worth a discounted £1.48bn in the most recent audited accounts, are seen by Equitas as a very solid holding. "I see them as being much more akin to our financial investments," says Ms Barker. "They are a guaranteed stream of income with no risk other than credit risk. They are not uncertain." Indeed, Equitas need have little worry over the credit worthiness of the issuer, for almost all the time and distance policies are underwritten by Zurich Group through its subsidiary Centre Re. The latter purchased a Bermudian company, Pinnacle, which had had the lion's share of the Lloyd's T&D market. Ms Barker would settle the T&D policies, but like any deal led by this tough negotiator, the price would have to be right.

Equitas itself may pass on some of its liabilities to the alternative risk transfer market, but is not permitted to shift any assets out of its coffers without the approval of the Financial Services Authority. "It is a pretty fair restriction, but it does limit us a little bit in terms of any flight of fancy we might have in terms of alternative risk transfer," Ms Baker says. She concurred that a sale of Equitas would be the ultimate form of risk transfer, but reaffirmed that no approaches have been made by potential buyers. She said that the uncertainty in the company's book of business – once described as the 'garbage heap' of the insurance industry – is sure to discourage any serious potential buyer.

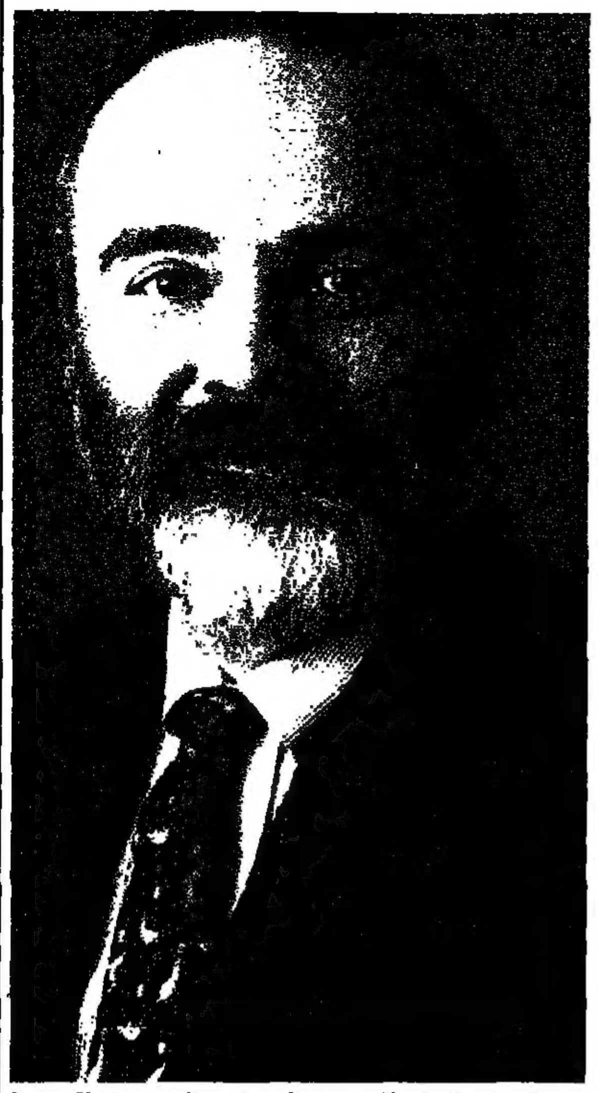
However, issuing a bond which could, for example, protect Equitas against an ultimate shortfall in the cash needed to meet its liabilities is "technically feasible," Ms Barker says. "It is not something that we are actively considering, but it is on our list of things to look at." However, she believes the audit qualification would make the pricing of the bond extremely difficult. "You can't transfer uncertainties, but you can transfer measurable risk. Purchasers of bonds would want us to move into a more certain environment, through data qualification, in terms of what we've got." The omnipresent problems will stymie a move to the capital markets for the near future. While Equitas staff continue to sort through the company's reams of paper records to establish its exact position, certainty on all fronts remains elusive.

Adrian Leonard

Jane Barker is a tough negotiator

PROFILE **Steven Gluckstern**

Super alternative risk shopkeeper


Steven Gluckstern: alternative reinsurer and ice hockey fanatic

Tap the name Steven M. Gluckstern into your web-browser and 500,000 page entries will appear, mostly to do with ice hockey. But 47-year-old Mr Gluckstern, who owns the National Hockey League's New York Islanders, is better known in reinsurance circles as the mercurial talent behind Bermuda's ground-breaking alternative risk shop, Centre Re, and New York-based Zurich Re.

His latest venture, Capital Z Partners, is an asset manager of alternative investment pools which includes Capital Z Financial Services Fund, a $1.8bn private equity fund specialising in insurance and reinsurance companies. Following restructuring at parent Zurich Insurance Group, Mr Gluckstern remains non-executive chairman of Zurich Re and the re-named Centre Solutions. Does he find it difficult to settle down? "As an entrepreneur, I get more enjoyment out of creating than managing," he admits. "The maintenance of organisations is important – but it motivates me less."

Ten years ago, as chief executive officer of the fledgling Centre Re, Mr Gluckstern introduced the revolutionary idea that reinsurance contracts need not be restricted to a one-year term and could include an element of profit-sharing with the reinsured. Since then, Bermuda has flourished as a source of alternative risk finance and the re-branded Centre Solutions has grown into a company with total assets of $7.8bn.

Mr Gluckstern admits the island's success is due not only to its friendly tax environment but also to a laid-back regulatory attitude. "Bermuda doesn't lack supervision – in fact it's a very efficient system compared to the US," he says. "It has the benefit of zero corporate tax but it also has zero personal tax and that makes it an attractive place to work."

The arrival of investment banks Goldman Sachs and Lehman Brothers on the island, in the guise of reinsurers Arrow Re and Lehman Re, is seen by Gluckstern as the beginning of a new era in reinsurance. "If these companies can unlock the process – from reinsurance syndication to securitisation – it will have a profound effect on the industry," he says. "Consolidation was the key word five years ago, convergence is the word of today."

Centre Solutions made its debut on the capital markets with a successful issue of $83.5m in catastrophe bonds this year. The placement, led by Goldman Sachs, is linked to a catastrophe excess of loss (catXL) programme written for a Florida homeowners insurer. Mr Gluckstern believes cat bonds have achieved only modest success with issuers because there is ample capacity in the traditional catXL market, and also because the bonds are not yet sufficiently attractive.

"First, there's not a wide enough market and second, the way bonds operate is not sufficiently transparent," he says. Buyers of risk need an index, he explains, so they can compare the instrument to a T-bond or an issue of General Motors subordinated debt, for example. Investors' hearty appetite for non-correlated risk and their desire to diversify their portfolios with instruments whose outcome depends on events not linked to economic conditions will ensure their acceptance eventually.

Mr Gluckstern is so convinced that reinsurers' future fortunes are embedded in the mainstream markets that he even plays down the importance of their core exposure to natural catastrophe losses. "There's so much capital in the reinsurance business today, because of good underwriting and an incredible run on the capital market for the last 1,000 days or so, that I would be shocked if an event leaves much of an impact on it – short of Tokyo falling into the ocean," he says. "The cataclysm will be a big crash in the capital markets, not a 'quake or a storm."

Garry Booth


Thin ice: Steven Gluckstern says the cataclysm will be a big crash in the capital markets

BERMUDA • by Garry Booth

Market adapts to change like a balloon being squeezed

The island is shifting away from mono-line catastrophe reinsurance

Bermuda's reinsurance market adapts to change in the global market like a balloon being squeezed: it contracts in one place but expands in another. Increasing competition and falling premium rates in the island's specialities of excess liability, finite risk and catastrophe excess of loss (catXL) business is leading Bermuda's companies to diversify and consolidate.

At the same time, continuing convergence between financial and insurance products is promoting Bermuda's growth as a centre for state-of-the-art alternative solutions. Merger and acquisition in the island's catastrophe reinsurance market, born five years ago in the aftermath of Hurricane Andrew, has reduced the original group of eight specialists to three (IPC Re, Renaissance Re and LaSalle Re). Tempest Re and Cat were acquired by Ace while Global Capital Re and Mid-Ocean Re fell to Exel. Partner Re abandoned its mono-line status when it acquired French reinsurer SAFR.

Ace and Exel, pillars of the market with $10bn in assets between them, want to use their acquisitions to widen their global reinsurance activities and supplement their interests at Lloyd's. Exel bought Mid Ocean earlier this year to create XL Mid Ocean Re in a deal which valued the now widely diversified company at $2.6bn. Through its 1995 acquisition of the Brockbank Group, Mid Ocean has a strong presence at Lloyd's and also has offices in Munich and Singapore.

Most Bermuda companies' capital has risen rapidly while core business has stopped growing, says Herbert Haag, president of Partner Re. "Rather than give it back to shareholders, these companies have been forced to put it to work," he explains. Faced with the choice of building or buying business, they have opted for the latter, as a less painful option.

But if Bermuda's established operators are expanding into the traditional market on the bigger stage, their offshoots and other newcomers are adding to the island's reputation for producing unorthodox solutions to new problems. Among a crop of new formations, Latin American Re, for example, formed by Exel and US-based Risk Capital Re, specialises in risk financing for Latin American non-life companies. Epicentre Re, set up by Centre Solutions with an initial capital base of $250m, writes multi-year cat programmes on a finite risk basis. Another new company, Ram Re, a mono-line reinsurer of asset-backed securities and municipal bonds was launched earlier this year following a $90m private placement. Shareholders include The PMI Group, the San Francisco mortgage insurer, and Robert A. Meyer, Ram Re's chairman, president and chief executive officer.

Significant new arrivals are cat reinsurers Lehman Re and Arrow Re, so-called transformer vehicles set up earlier this year by US investment banks Lehman Brothers and Goldman Sachs. Both companies want to take advantage of the growing appetite for catastrophe risk among capital markets investors. By writing business in conventional forms and then laying off the risks to the capital markets, the companies aim to eliminate the costs and delays associated with cat bond structures. Previously, special purpose vehicles have been used in cat bond issues, increasing attritional costs.

The convergence of insurance and banking is good news for Bermuda, says William Woods, chief executive officer of the Bermuda Stock Exchange. "With onshore jurisdictions you have to deal with different supervisory bodies covering the different financial activities," he explains. "In Bermuda we have a simpler structure with only one regulator to satisfy. That's why you're seeing transformer vehicles like Lehman Re and Arrow Re setting up in Bermuda."

A joint venture between the Bermuda Stock Exchange (BSX) and New York-based Catex sees the launch later this year of a screen-based market for trading catastrophe risks.

In a similar move, the Bermuda Commodities Exchange (BCOE) opened for business earlier this year with 20 members including investment banks, institutional investors and Bermudian reinsurers. Trading in US cat options at the BCOE is based on the Guy Carpenter Catastrophe Index which reflects damage to property in regions of the US exposed to atmospheric perils.

Bermudian companies are not immune to the problems stunting growth in the wider market. Total net premiums written by the big reinsurers who make up Bermuda's category four companies dropped 7 per cent to $[illegible]bn in 1997. But the combination of light taxation and flexible regulation means that Bermuda companies can respond quickly to new opportunities. At a time of convergence between the insurance and financial markets, that agility is more important than ever.

Garry Booth is author of the FT management report: Bermuda: Insurance and Reinsurance Centre

Reinsurance premiums accepted by Bermudian companies

	1991 $bn	1992 $bn	1993 $bn	1994 $bn	1995 $bn	1996 $bn	Growth[1] %
D&O	674	863	1,084	1,305	1,524	1,945	[illegible]
Workers comp	771	924	1,162	1,398	1,524	2,045	[illegible]
General liability	48	62	77	186	216	314	[illegible]
Product liability	0	0	0	0	11	17	[illegible]
Professional liability	48	62	77	93	109	125	[illegible]
Marine & aviation	337	431	542	559	653	865	[illegible]
Catastrophe	1,011	1,232	1,627	1,958	2,395	3,278	[illegible]
Specialty	144	185	232	373	435	570	31.6
Satellites	0	0	0	0	109	180	[illegible]
Other	1,782	2,403	2,943	3,449	3,908	4,922	[illegible]
Total	5,254	6,036	7,150	8,428	9,400	11,934	17.8

Source: Datamonitor Global Reinsurance Database/Bermuda Monetary Authority [1] Compound annual growth rate

US OPERATORS • by John Authers

Timely increase in weight

The threat of big losses could make the latest capital-enhancing deals very welcome

Reinsurance finally made the headlines in the US this year. The industry had to share the attention with Warren Buffett, the world's most successful investor, but it still demonstrated the industry's growing health.

The next few months, with world stock markets tumbling and the recurrence of what appears to be a severe hurricane season in the north Atlantic, will put the new-found strength to the test.

Late on a Friday afternoon in June, Mr Buffett's Berkshire Hathaway conglomerate announced that it was buying General Re, comfortably the largest US reinsurer, in a stock swap valued at more than $22bn. At the time, it was one of the 10 largest corporate acquisitions ever recorded.

The deal has not yet been completed, but will create a "400-pound gorilla" of a company, which will be difficult for any competitor to match. Mr Buffett, whose main interest throughout his investing career has been insurance, stressed the effect of Berkshire's capital on General Re's competitiveness.

He said that the constraint of earnings volatility had "caused General Re, in the past, to decline certain attractive businesses and, in other cases, to lay off substantial amounts of the business it does write". Underwriters could now be more aggressive.

He added that the weight of Berkshire's resources would allow General Re to follow "whatever asset strategy makes the most sense, unconstrained by the effect on the capital of the company of a sharp market decline".

Alan Murray, insurance analyst at Moody's Investors Service in New York, commented that the disparity in size between the new company and its rivals would be "staggering". He added: "This company's sheer ability to assume a tremendous volume of risk could make it a unique company."

No other company could match this deal for scope or ambition, but other operations have shown similar forces at work. In August it was announced that Kemper Re was selling to GE Capital, the financial services arm of General Electric, for a sum of about $1bn. A specialist in medical liability reinsurance, Kemper Re seemed to be following the logic of a situation in which the big companies were growing bigger, and found a large partner.

The common thread to both deals was capital. Kemper Re, like General Re, saw that a reinsurer armed with the capital that comes from being part of a large conglomerate like Berkshire Hathaway or General Electric has much greater power to set prices aggressively.

Reinsurers in North America were already prospering. While premium rates were still falling, analysts believed that underwriting discipline had improved, with loss ratios falling. Two external factors helped in particular.

First, catastrophe losses in the US were the lowest of the decade in 1997, allowing the industry to rebuild reserves and, in the process, fend off the potential threat from securitisation. With premiums from reinsurers falling, it was hard for the capital markets to compete, and barely any more securitised reinsurance products were launched this year than last.

Second, reinsurers could enjoy spectacular returns from the equity market. With the S&P 500, the main benchmark for the US equity market, up 50 per cent year on year at one point in March, reinsurers were able to build their capacity further.

Both these factors suddenly seem more questionable. The second quarter of this year saw a sharp increase in catastrophe losses for property/casualty insurers, mostly as a result of storms in the mid-west and the north-east, and away from the regions where the industry had tried hard to diminish its exposure.

By the end of August, with Hurricane Bonnie having apparently inflicted serious damage on the coast of North Carolina, and with meteorologists suggesting that several more Atlantic hurricanes were possible, catastrophe losses seemed likely at least to return to the norm.